FINANCIAL TIMES

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UK drive to end rift within EU

Hurd urges firmer Brussels foreign policy

By Lionel Barber in Brussels

Mr Douglas Hurd, the UK foreign secretary, yesterday launched a campaign to end Britain's recent diplomatic isolation in Europe and persuade its partners that the UK views the European Union as more than a free trade area.

In remarks aimed at breaking the stranglehold of the Conservative party's Euro-sceptics on UK policy toward Europe, Mr Hurd pledged British support for a stronger common foreign and security policy, including an offer to pool sensitive political intelligence reports in Brussels.

He told EU foreign ministers in Brussels: "The European Union cannot be simply a free trade area or even a single market. We need to develop a system for constructing our foreign policy better internally, and projecting it better externally."

Mr Hurd's intervention appeared aimed in part at easing tensions with France and Germany over Britain's veto of Mr Jean-Luc Dehaene, the Belgian premier backed by Bonn and Paris for the European Commission presidency.

But it was also an effort to recoup lost ground after the row over Britain's unsuccessful campaign to maintain its power to block EU legislation once the Union expands, as planned, from 12 to 16 members.

"We need to talk less exclusively about British interests and more about Europe's interests," said a senior UK official.

Mr Hurd suggested that the EU's newly established relationship with Ukraine could serve as a trial run for a more co-ordinated foreign policy approach among the Twelve, starting with foreign ministers sharing intelligence and analysis.

There was a need for a "strategy" for relations with central and eastern Europe combining expanded trade and closer security ties leading to the ultimate goal of EU membership.

Ministers moved in this direction yesterday with the signing of free trade agreements with the Baltic states. They also welcomed a new European Commission policy paper which aims to help the East Europeans prepare for EU membership by integrating their laws and trade practices with those of the Union.

A Commission official said harmonisation of competition law, trade practices and other legislation would, in effect, expand the single European market eastwards.

This would create a new market of about 450m people, including the EU, Baltic states, Slovenia, and the six countries which have concluded association agreements with the Union – Poland, Hungary, the Czech republic, Slovakia, Romania and Bulgaria.

The Commission paper also suggests that both west and eastern Europe must make radical reforms to lay the groundwork for membership. It says former communist countries should cut capacity in smokestack industries, modernise banking and promote small businesses.

Similarly, EU members need to brace themselves for changes in the hugely expensive system of farm price supports under the Common Agricultural Policy and the regional aid budget known as structural funds.

The UK is pressing this agenda, but is conscious that opening the question of CAP reform prematurely could trigger a confrontation among EU member states which would delay the expansion of membership. "The timing is crucial," said one UK official.

Meanwhile British officials believe that it might be possible to invite the east Europeans to join meetings of EU foreign ministers or interior ministers with the power to speak but not to cast a vote.

Although France and other countries were hostile to this idea two years ago, UK officials believe they might be more receptive today to the idea of "partial membership" in a "multi-speed" Europe.

Bonn drops threat to ban imports of British beef

Germany has dropped threats of a unilateral ban on imports of British beef after the EU veterinary committee recommended tighter restrictions on the sale of beef which may be contaminated with bovine spongiform encephalopathy.

"There will be no unilateral action because we achieved a satisfactory solution in the agriculture council and in the veterinary committee," a spokesman for the German delegation said.

US sees end to Mideast conflict: US secretary of state Warren Christopher triumphantly said the Arab-Israeli conflict, "one of the most long standing and most intractable" of the century, was drawing to an end. He was speaking after meeting Israeli leaders on the first day of Middle East diplomatic talks. Page 16; Desert tribes meet to bury differences in the sand, Page 4

Chase Manhattan and NationsBank, two of the US's biggest commercial banks, comfortably beat market forecasts with post-tax earnings gains of 32 per cent and 43 per cent respectively in the second quarter. Page 17

Twelve die in Buenos Aires blast: At least 12 people died and 50 were injured in an explosion that ripped through the Buenos Aires offices of two Jewish organisations.

Synergen: The Colorado based company, once a star of the US biotechnology industry, has dropped research of its biggest product, Antril, and announced a restructuring of the business and its possible sale. Page 17

Canada eases internal barriers: Canadian prime minister Jean Chrétien and leaders of the 10 provinces signed a long-awaited deal to ease internal trade barriers. Page 5

India and China to reopen trade route

India and China agreed to reopen an ancient trade route after 32 years, as Qian Qichen (left), China's vice-premier and foreign minister, said during a visit to New Delhi he hoped border disputes between the two countries would be resolved soon. An ancient trade route through the Shipkila Pass on the border of Kinnaur district in Himachal Pradesh was formally restored with the signing of a protocol by the two governments. Page 4

Black businessmen plan SA listing: A group of black South African businessmen plans to establish a new R7bn ($1.91bn) company and list it on the Johannesburg stock exchange next month. If successful, the company will become by far the largest black-owned and run commercial enterprise in South Africa. Page 17

Bank of Montreal: Canada's third largest bank is to pay up to C$403m (US$290m) in cash and shares for Burns Fry, a Toronto securities firm which is 26 per cent owned by Bank of America and 74 per cent by its employees. Page 17

Bosnia involvement 'to increase': The US and Nato can be expected to deepen their involvement in the Bosnian crisis, regardless of the fate of the peace plan which the warring parties are now considering, according to senior Western officials. Page 2

Coca-Cola: The US soft drinks group, increased net profits by 13 per cent to $758m in the second quarter in spite of competition from private label colas in several of its biggest markets. Page 20

Call for wider IMF role: The International Monetary Fund needed to play a larger role as a manager of the international economic system, while increasing its efforts to promote sustainable growth in former communist countries and the developing world, managing director Michel Camdessus said. Page 5

Hymn to television: A Chinese Communist party hymn written in honour of Chairman Mao Zedong has been reborn as an advertising jingle glorifying a television set. Page 16

Shipbuilding deal attacked: French shipbuilders condemned the weekend agreement on eliminating subsidies in the shipbuilding industry, claiming their competitors would benefit from indirect subsidies. Page 6

Death toll rises: The death toll from floods in parts of south, east and northeast India has risen to at least 330, the Press Trust of India reported.

STOCK MARKET INDICES

FT-SE 100:	3082.8	(+7.2)
Yield	4.05	
FT-SE Eurotrack 100	1340.11	(-2.91)
FT-SE-A All-Share	1538.11	(+0.2%)
Nikkei	20,717.64	(-52.51)
New York: lunchtime		
Dow Jones Ind Ave	3753.49	(-0.32)
S&P Composite	454.62	(+0.46)

US LUNCHTIME RATES

Federal Funds:	4¼%
3-mo Treas Bills: Yld	4.343%
Long Bond	85⅞
Yield	7.509%

LONDON MONEY

3-mo Interbank	5⅛%	(same)
Liffe long gilt future:	Sep 103⅜	(Sep 103½)

NORTH SEA OIL (Argus)

Brent 15-day (Sep)	$17.38	(17.78)

Gold

New York Comex (Aug)	$386.2	(386.4)
London	$386.5	(385.2)

STERLING

New York lunchtime:		
$	1.56175	
London:		
$	1.5644	(1.5586)
DM	2.4135	(2.4249)
FFr	8.2858	(8.3218)
SFr	2.0358	(2.0449)
Y	153.062	(152.595)
£ Index	78.3	(same)

DOLLAR

New York lunchtime:		
DM	1.5461	
FFr	5.2875	
SFr	1.3035	
Y	98.6	
London:		
DM	1.5428	(1.5558)
FFr	5.2965	(5.3393)
SFr	1.3013	(1.312)
Y	98.35	(97.905)
$ Index	62.4	(62.5)
Tokyo close Y 98.18		

Austria	Sch32	Greece	Dr350	Lux	LFr65	Qatar	QR13.00		
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S.Arabia	SR11		
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30		
Bulgaria	Lv25.00	Iceland	IKr215	Neth	Fl 4.50	Slovak Rp	KSL50		
Cyprus	C£1.10	India	Rs60	Nigeria	Naira45	S.Africa	R12.00		
Czech Rp	CZK50	Israel	Shk6.90	Norway	NKr17.00	Spain	Pta225		
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16		
Egypt	E£5.00	Japan	Y600	Pakistan	Rs40	Switz	SFr3.30		
Finland	FM14	Jordan	JD1.50	Philippines	Pso50	Syria	S£50.00		
France	FFr8.50	Kuwait	Fils.625	Poland	Zl 22,000	Tunisia	Din1.500		
Germany	DM3.50	Lebanon	US$1.50	Portugal	Esc225	Turkey	L30000	UAE	Dh12.00

Split in Italy's coalition hits stocks and lira

By David Lane in Rome

The Italian lira and the Milan stock market fell sharply yesterday as Mr Silvio Berlusconi, the prime minister, tried to prevent his right-wing coalition government splitting over a decree limiting the judiciary's powers of arrest.

The falls came despite attempts by Mr Berlusconi to play down the threat to his coalition.

The lira touched a record L1,003 low against the D-Mark, and lost ground against the French franc, falling from L289.9 to L292.1. But it remained virtually unchanged against the dollar at just over L1547.

Milan's Mibtel share index closed 2.32 per cent down on Friday, though it had earlier slipped by 2.61 per cent in the afternoon.

Mr Berlusconi, who provoked the crisis last Thursday by approving a decree that has allowed dozens of leading suspects in Italy's corruption investigations to leave prison, appeared on television last night to defend the move and quash speculation about the future of his government.

"We are absolutely not a step away from a government crisis," he said. "The decree is not an amnesty for anyone. We need to have civilised debate, not screaming in the piazza."

The decree led to the immediate resignation of the popular team of Milan magistrates who have been largely responsible for attacking civil service and business corruption in Italy in the past two years. But it has also shaken Mr Berlusconi's two coalition partners, the Northern League and the neo-fascist MSI/National Alliance. Both parties campaigned in the spring election on strong anti-corruption records and both want the decree repealed.

The subsequent infighting between Mr Berlusconi's Forza Italia movement and the other two partners has already led to the senior League member of the government saying he had been duped over the decree. Forza ministers came close yesterday to accusing him of lying.

The row has further poisoned already poor relations between the coalition partners, particularly between the League and Mr Berlusconi, and although threats by both sides to either resign or provoke new elections seem unlikely to come to a head, scope for compromise is limited.

Analysts believe the government, whose popularity has been dented by the affair, may be able to reach a quieter compromise by the time the decree is discussed in parliament, which has to ratify it within the next three months.

But there was little evidence of an improvement in the political

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Rwandan rebels in peace gesture

A French medic helps a Rwandan orphan wounded in the weekend mortar attack at the Zairean border. Tutsi rebels named a Hutu as president in an apparent attempt to reassure the Hutu majority that they have nothing to fear under the new regime Report, Page 16 Reuter

Bank looks at Asian link to missing gold coins

By Robert Peston in London

Standard Chartered is investigating the disappearance of $10,000 of gold coins, allegedly given by its Mocatta bullion division to a Malaysian minister as a "trade sample".

The disappearance of the coins has emerged as part of a wide-ranging probe by the London-based international bank into allegations that Mocatta executives may have paid commissions to officials in the Philippines and Malaysia to obtain business.

"The investigation into what happened to the gold is still going on," commented a banker. "There may be a perfectly innocent explanation, though it all looks very odd."

The disclosure of the disappearance of the coins comes at an embarrassing time for the British government, which had been hoping that Malaysia might soon announce a lifting of its ban on UK participation in Malaysian government contracts.

The ban was put in place because of the Malaysian government's fury with the British press over the Pergau Dam alleged arms-for-aid deal and allegations of bribes paid to Malaysian politicians.

The Bank of England has been kept closely informed of Standard Chartered's investigation and is understood to be concerned about its implications for diplomatic relations between the UK and Malaysia.

The Malaysian High Commissioner in London, Mr Abu Kamarudin, yesterday met Standard Chartered's chief executive, Mr Malcolm Williamson, to discuss the bank's probe.

Last night Mr Kamarudin had no comment to make on the allegations.

Standard Chartered has also uncovered evidence that payments may have been made to officials at the Philippines central bank in order to win business.

The bank said yesterday that it had uncovered "a small number of unusual transactions" involving the Far Eastern operations of its Mocatta subsidiary, as part of

Continued on Page 16

Microsoft settlement an end to 'distracting battle' says Gates

By Louise Kehoe in San Francisco

Microsoft's settlement of anti-trust charges with the US Justice Department and European competition authorities will have "no material impact" on the software company's financial performance, Mr Bill Gates, its chairman and founder, said yesterday. "Any effect will be *de minimus*."

The settlement, which requires Microsoft to modify its operating system licensing practices, "eliminates something that could have become a major distraction", Mr Gates said.

"I like to spend my time working with the product groups, developing great technology," he added. Mr Gates stressed that he believed Microsoft had never done anything "inappropriate or illegal".

The company's success in selling operating systems programs for PCs "is based on end-user demand and usage. The key thing that affects our sales is not licensing terms but strong end-user demand", he said. Microsoft's future success remained dependent upon the ability of the company to "continue to come up with great products".

The settlement provides Microsoft with an opportunity to do that without the burden of a distracting and costly legal battle, he added.

Industry analysts said Microsoft "got off easy" on charges that it "built a barricade of exclusionary and unreasonably restrictive licensing agreements to deny others an opportunity to develop and market competing products".

Microsoft's share price rose in reaction to news of the agreement. . Microsoft was trading at $50¼ in mid-session yesterday, up from Friday's close of $48⅝.

Competition authorities examined a broad range of issues raised by competitors, Microsoft said, but the settlement covers only two of those issues – licensing practices and non-disclosure agreements.

In particular, the settlement agreement did not address the widely held concerns in the software industry that Microsoft gains unfair advantages as a developer of both operating systems, which control the basic functions of a computer, and applications programs, such as word processors, games and spreadsheets.

Microsoft is the largest seller of applications for use with its own Windows operating system. This dual role is Microsoft's principal advantage, according to software industry executives, because Microsoft's application developers have earlier and fuller access to details of next generation operating systems than their competitors.

For the next six and a half years, the duration of the settlement agreement, Microsoft's business activities will be monitored by the Justice Department and European competition authorities.

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Rühe raises Polish hopes over Nato

By Bruce Clark, Defence Correspondent

Mr Volker Rühe, the German defence minister, has said Poland could join Nato by the end of the decade, while he sees no prospect of Russia or Ukraine ever doing so.

Mr Rühe's remarks were quoted in the Polish media as he began talks with his French and Polish counterparts on Warsaw's role in the Nato-inspired Partnership For Peace programme.

The German minister also said that his country and the US were the only existing Nato members that were enthusiastic about the idea of extending the alliance eastwards, and some members were cool towards the idea.

"Not all countries are in favour of expanding Nato," he was quoted as saying.

Mr Rühe's comments were in line with the strident declarations of unanimity that were heard in Berlin last week from President Bill Clinton and Chancellor Helmut Kohl over east European questions.

His remarks were an unusually blunt acknowledgement that, although all candidates are supposed to join PFP on equal terms, not all of them can look forward to full acceptance as a Nato member.

Russia, after considerable hesitation, last month became the 20th country to sign up to PFP, a programme that promotes joint military exercises and defence planning.

Mr Andrei Kozyrev, the Russian foreign minister, said at the signing ceremony that the alliance should not alienate Moscow by rushing to incorporate countries to its east.

Nato officials hailed the fact that Mr Kozyrev did not unequivocally denounce the notion of expansion. However, Russian sensitivity over the strategic orientation of Poland remains extremely high.

Moscow has mada it clear that it feels unhappy about its former east European "satellites" being admitted to any arrangement from which Russia itself is barred.

Mr Rühe's comments follow a vote in the US Senate to facilitate the transfer of surplus western defence equipment to Poland, Hungary and the Czech Republic.

The resolution, approved by 76 votes to 22, was intended by its sponsors to accelerate the process of making the arsenals of those three countries compatible with Nato equipment.

It has already drawn a complaint from the Slovak republic that distinctions are being drawn between central European countries in a way that could undermine stability.

Senator Hank Brown, one of the amendment's sponsors, said it was intended to ensure that "reasserting control over Poland, Hungary and the Czech republic will no longer be considered viable by anyone in Russia".

Opponents of the measure argued that, by singling out three countries, it would create jealousies within eastern Europe and foster nationalist forces in those countries which were left out.

In Warsaw, Mr Rühe said Russia would have no influence on Poland's aligibility for Nato membership.

Poland has been the keenest of the east European countries to take advantage of the PFP, and it will host the PFP's first full-blown military exercise in September.

Poland has also held a series of bilateral war games with west European countries and, in October, it will send troops to France for a training exercise with the French and German armies.

Warsaw has also asked to join the Franco-German Eurocorps, the Strasbourg-based unit which is seen by its supporters as the core of a mobile European land army. This proposal has so far been treated with caution in western capitals and it is likely to be viewed with deep alarm in Moscow.

Senator Brown said his resolution had been supported by such veterans of the US foreign establishment, and advocates of a tough line with Russia, as Mr Zbigniew Brzezinski and Mr Henry Kissinger. Mr Brzezinski has called for the formation of a "common security area" grouping France, Germany and Poland.

Western officials discuss options as warring parties consider partition

US and Nato likely to expand role in Bosnia

By Bruce Clark, Defence Correspondent

The US and Nato can be expected to deepen their involvement in the Bosnian crisis, regardless of the fate of the peace plan which the warring parties are now considering, according to senior western officials.

They were speaking as Bosnian Serb representatives in Pale, and the Moslem-dominated Bosnian parliament in Sarajevo, began considering the partition proposals drawn up by four western nations and Russia.

The Bosnian Serb leader, Mr Radovan Karadzic, told the Pale meeting that acceptance of the ideas would be "less honourable" than rejection.

Mr William Perry, the US defence secretary, said as he began a tour of seven Balkan countries that the US was ready to send a "significant number" of troops to Bosnia if the peace plan won acceptance, while Washington would also accept an expanded military role in the event of renewed fighting.

US officials said that, if an agreement were to take hold, President Bill Clinton would propose despatching at least 15,000 US troops, to make up about half a peacekeeping force.

In the event of tha plan's failure, the US air force would be involved in tougher policing of no-fly zones and safe areas.

At Nato headquarters in Brussels, officials said they were considering three scenarios for deeper involvement, following their talks with the senior members of the UN operation to former Yugoslavia over the weekend.

One was a heavy Nato engagement on the ground in implementing a peace plan which had won broad acceptance by the parties.

The second was an increased nse of Nato air power to minimise the extent of the fighting, while retaining some UN presence on the ground.

This would go ahead if the outside powers which have been working for a settlement in Bosnia resign themselves to a less ambitious goal than full-blown peace. They may attempt to confine the fighting to thinly populated areas where there is less risk of civilian populations being held trapped.

For the past three months, Nato has reserved the right to establish "total exclusion zones" - where heavy weapons would be subject to air strikes - in the UN-designated safe areas of Zepa, Srebrenica, Tuzla and Bihac.

This would mean extending a principle that has already been applied in Sarajevo and the enclave of Gorazde.

Nato could also establish an exclusion zone in the bitterly disputed area round the town of Brcko, a key point in the corridor that links the Bosnia Serbs with their kinsmen in Serbia.

But that move would require a new resolution of the UN Security Council.

In a third scenario, the UN may decide to pull its troops out of Bosnia and it might then require help from Nato, including air cover, to carry out the withdrawal.

All three scenarios were discussed at weekend talks between Admiral Leighton Smith, Nato's commander in southern Europe, and the two top UN officials in former Yugoslavia: Mr Yasushi Akashi of Japan and France's General Bertrand Lapresle.

In the past, high-level discussions between Nato and the UN about Bosnia have been abrasive affairs. Nato officials have chided the UN for being too soft on the Serbs, while the UN commanders have branded Nato with failing to realise the vulnerability of their peacekeepers and relief workers.

However, alliance officials insisted that the two institutions were now working in much better harmony.

Moslems expelled across frontline

By Laura Silber in Belgrade

Bosnian Serb fighters have rounded np hundreds of Moslem civilians in Bijelina, north-eastern Bosnia, imprisoning many and expelling some over the frontline, UN officials and eyewitnesses said yesterday.

The Serb Population Exchange Commission, in concert with the Panthers, a Bosnian Serb paramilitary group, rounded up and imprisoned 800 Moslems, said witnesses in the town on Bosnia's frontier with Serbia. UN spokesmen said at least 135 women, children and elderly men were also forced across the frontline near Tuzla, the biggest Bosnian government stronghold in the north-east, after being robbed and beaten.

"We fear for our lives," said a non-Serb woman speaking by telephone from Bijelina amid the biggest wave of forced expulsions in over a year.

"This is just like the Gestapo in the second world war," she added, speaking on condition of anonymity out of fear of reprisal.

Mr Kris Janowski, spokesman of the UN High Commissioner for Refugees in Sarajevo, said: "They were told that they were being exchanged [for Serbs] or sent abroad and they had to renounce claims to their property.

"Then they were robbed at the confrontation line and pushed over to the other side. . . with some shots fired over their heads."

Up to 4,000 Moslems remain in Bijelina. Moslems comprised the majority of the population of 35,000 before Serb paramilitaries, with the Yugoslav army, waged war against Bosnian independence in April 1992. All but a handful lost their jobs, property and homes.

"It is now terror on the streets. They are trying to clear out the last Moslems," said a 29-year-old Serb inhabitant.

The expulsions are another sign of Serb refusal to abandon their self-proclaimed state and endorse a plan to preserve Bosnia-Hercegovina as a unified country composed of two loosely joined ethnic mini-states.

Spain and France tighten controls on drift nets

Spain and France hava welcomed a decision to give EU inspectors greater powers to check fishing boats for oversized drift nets after skirmishes on the high seas between Spanish and French fishermen at the weekend, Reuter reports from Madrid.

Spanish agriculture and fisheries minister Mr Luis Atienza said: "I think we have achieved a notable strengthening of the processes of inspection and control which will be carried out by EU inspectors."

After a meeting of EU agriculture ministers in Brussels yesterday, Mr Atienza said France and Spain had agreed to let EU inspectors travel on national inspection vessels to check fishing boats.

"[The decision] will reassert the credibility of tha inspection process. Until now, inspectors came from individual countries and practice showed that French patrol boats ... were not sufficiently diligent," Mr Atienza said.

On Saturday, 60 Spanish boats clashed with five French vessels 700km off the northern coast of Spain in the latest skirmish in the so-called "tuna war". A French trawler, La Gabrielle, was rammed and set alight with petrol bombs. Spanish fishermen claim It carries oversized nets.

Spain's 300-strong fleet headed home on Monday with La Gabrielle in tow. Atienza said the trawler would be returned to France after checks by Spanish authorities and EU inspectors.

The French agriculture ministry welcomed the Brussels agreement but stressed that France "would never and in no way accept Spanish constraints imposed by force".

Mr Alain Parres, president of the French fishermen's national federation, said he would demand that France lobby Spanish authorities for compensation for the La Gabrielle incident.

"Wa're going to demand compensation for the material damage and for the financial cost of lost catches," Mr Parres said before a scheduled meeting with French agriculture minister Mr Jean Puech. Mr Parres said he would also urge better protection for French fishermen at sea.

EU rules forbid the use of nets longer than 2.5km and Spanish fisharman have consistently accused French boats of contravening these norms.

France has retaliated by saying Spanish fishermen are trying to drive the French out of the water.

The environmental group Greenpeace reiterated its call for a total ban on drift nets. It said the existing ban was insufficient and regularly violated by EU fleets.

Kohl wants E Europeans invited to EU summits

By Michael Lindemann in Bonn

The four east European states making the most progress with their economic reforms should be invited to future European Union summits, Chancellor Helmut Kohl told Hungary's visiting prime minister, Mr Gyula Horn, yesterday. Hungary, Poland, the Czech Republic and Slovakia should attend at least one summit a year, he said, citing President Boris Yeltsin's recent attendance at the Group of Seven summit in Naples as an example of how this could be done.

"It is incredibly important that the [four countries] receive a message which has some meaning for the population," Mr Kohl told journalists.

"I know that the opinion of my [EU] partners differs but that does not affect the fact that I think it is right." However, a government official said there was no timetable for such a measure. The matter would be given more attention after the four new members of the EU - Austria, Sweden, Finland and Norway - had completed the accession process next January.

Germany assumed the EU's rotating presidency on July 1, and Mr Kohl said he would use the opportunity to work for a closer partnership with eastern Europe. The chancellor also said he "passionately" supported Hungarian membership of the Union.

Mr Horn, on his first official visit after being confirmed as premier last Friday, called on German industry to step up its investments in his country, particularly with regard to the privatisation of banks and the development of infrastructure.

Hungary received the most German investment of any east European state last year - soma DM600m (£248m).

Chancellor Kohl and prime minister Gyula Horn at ceremonies to mark the latter's arrival in Bonn yesterday Reuter

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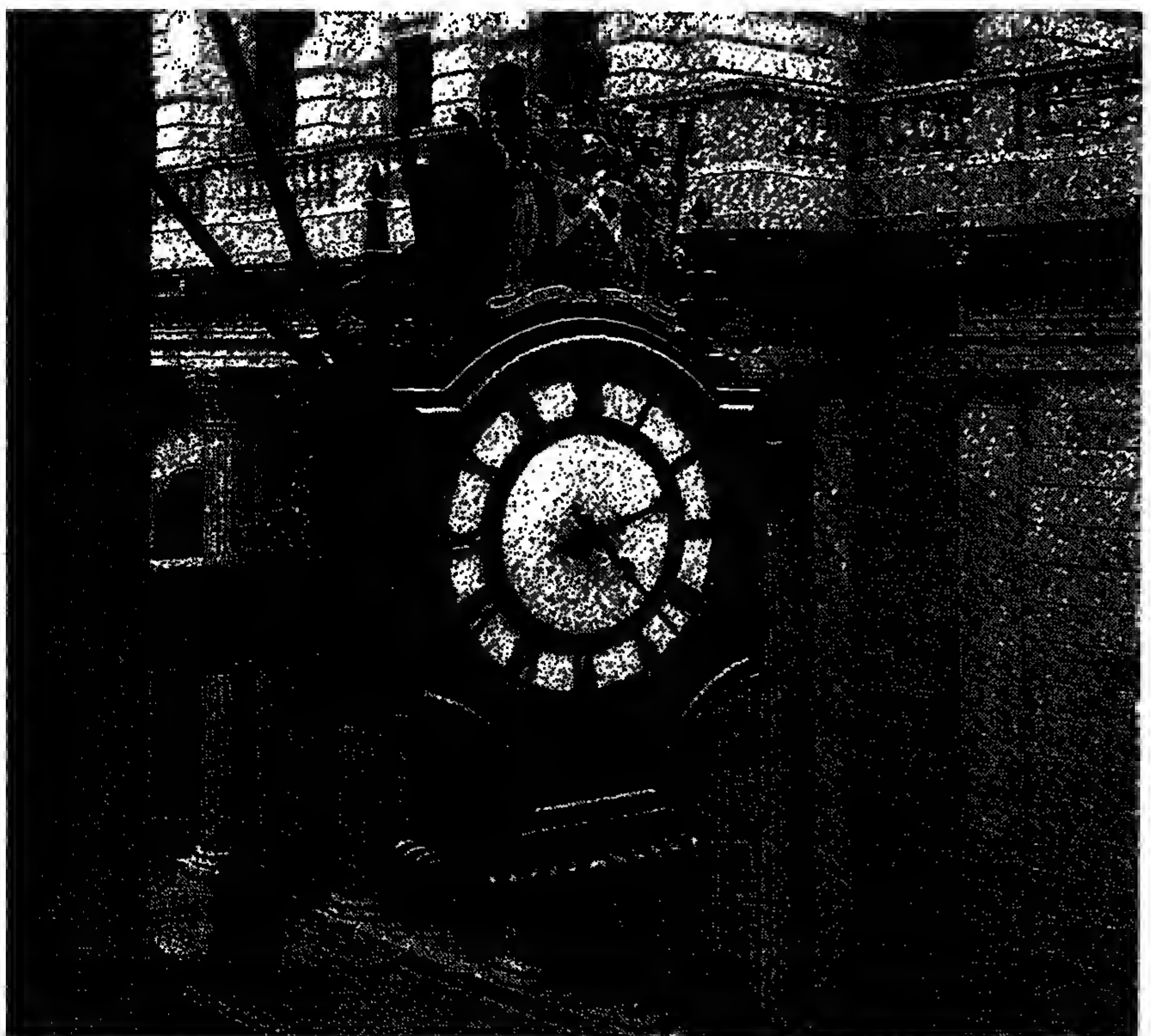


EUROPEAN NEWS DIGEST

Mitterrand has prostate surgery

President François Mitterrand is expected tomorrow to leave the Paris hospital where he has undergone prostate surgery. The president, 77, was admitted to hospital on Sunday and had the operation yesterday to remove an obstruction to his urethra which was affecting his kidney. The surgeon, who treated him two years ago for prostate cancer, said that yesterday's operation had been completed "satisfactorily" and that the president's condition was stable. Mr Mitterrand's wife, Danielle, underwent heart surgery last Friday. Mr Mitterrand has persistently ruled out the possibility of standing for re-election in next April's presidential poll but has long insisted that, his health permitting, he plans to serve out the remainder of his term in office. *Alice Rawsthorn, Paris*

UK companies pay bills latest

British companies pay their bills later than anyone else in Europe, and most of the late payment is deliberate, according to a survey commissioned by Intrum Justitia, Europe's largest debt collector. It polled just over 4,000 European companies, and found that payments in Britain are on average 23 days late, compared with a European average of 14 days. Some 54 per cent of late payment by British companies was intentional, whereas the most common reason for paying late in the rest of Europe was financial difficulty. "The British clearly pay as late as possible, probably because, with little effective legislation to stop them, they know they can get away with it," Intrum Justitia said. The British government has recently come down against legislating on late payment, but Intrum Justitia found that 88 per cent of companies in the UK favoured the idea of a statutory right to interest on overdue money all across Europe. A large majority also wanted the right to compensation for the costs involved in chasing debts, as well as simpler legal procedures. *Reuter, London*

EU and Baltics sign trade pacts

The European Union signed free trade agreements with the three Baltic states yesterday. The accords, which provide for free trade in industrial goods and limited concessions in agriculture, bring the Baltic states closer to their goal of joining the EU. German foreign minister Mr Klaus Kinkel said at the signing ceremony that increasing trade was the most important way to further economic reforms in Estonia, Latvia and Lithuania. Estonian foreign minister Mr Juri Luik said his country hoped to fulfil all EU membership requirements by the year 2000. Mr Luik welcomed the European Commission's proposal to hold initial talks by the end of this month on an association accord similar to those with other east European countries. *Reuter, Brussels*

Poland tries to halve debt

Poland yesterday sought to encourage international creditors to commit themselves to financing proposals which will allow Poland to complete a 46 per cent reduction on its $13.2bn (£8.6bn) London Club debt in the first half of September. Mr Krzysztof Krowacki, Poland's chief debt negotiator, said he was "extremely close" to obtaining the consent of holders of 95 per cent of the debt needed for the deal to be implemented in its entirety. Mr Krowacki said bearers of over 55 per cent of the debt want to change it into discount bonds at a 45 per cent reduction rate, while holders of 26 per cent of the debt have agreed to a Polish proposal to buy back their paper at a price of 41 cents to the dollar. The exchange of debt into discount and par bonds would go ahead even if the 95 per cent consent for buy-back is not achieved, as agreements from only half the debt holders are needed in this case. One London-based debt trader commented yesterday that the government's decision to hold a press conference showed that "agreement was slow in coming at the end" but saw no reason to doubt that the 95 per cent target would be reached, especially as the buy-back element was "generously priced". Poland will be financing the reduction from its own reserves and loans from the International Monetary Fund and the World Bank. *Christopher Bobinski, Warsaw*

E German incentives extended

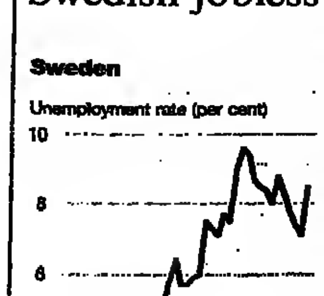
Investment grants and tax incentives for enterprises in eastern Germany, which were due to end next year, will be extended until 1998, Mr Günter Rexrodt, the German economics minister, said yesterday. He said a further DM5bn (£2bn) in addition to the annual DM10bn would be put aside for investment grants, or subsidies, while companies will be allowed to continue to write off against tax 50 per cent of capital investment in equipment. In addition, DM1.2bn will be allocated to research and development in the five eastern states. The east German economy is expected to grow by about 8 per cent this year, but any growth is coming from a low base – the region's gross domestic product fell by over 30 per cent between late 1990 and 1991, and unemployment, officially at 16.2 per cent, is slowing down not as a consequence of the availability of new jobs, but, according to economists, because the unemployed, particularly women, are no longer being registered on the unemployment register. *Judy Dempsey, Berlin*

Bangemann set for new term

Mr Martin Bangemann, EU industry commissioner, will have his term as one of Germany's two European commissioners extended next year, the liberal Free Democratic Party said yesterday. FDP general secretary Werner Hoyer said Chancellor Helmut Kohl had agreed to renew Mr Bangemann's appointment in talks on Friday with foreign minister and FDP leader Klaus Kinkel. The renewal of his appointment would depend on Mr Kohl's 12-year-old centre-right coalition retaining power in elections on October 16. There had been speculation in Bonn that Mr Bangemann and his colleague Mr Peter Schmidhuber, a member of the Christian Social Union, would be replaced when their current term expires. Political and diplomatic sources said last month that Mr Kohl, the Christian Democrat leader, and Social Democratic (SPD) opposition leader Rudolf Scharping had agreed that members of their two parties should take up the commission posts. The main candidates were said to be Mrs Birgit Breuel, president of the Treuhand privatisation agency, for the CDU, and deputy SPD leader Heidemarie Wieczorek-Zeul. *Reuter, Bonn*

ECONOMIC WATCH

Swedish jobless rate climbs



Source: Datastream

Sweden's unemployment rate climbed to 8.5 per cent of the workforce in June from 7.1 per cent in May, according to the central bureau of statistics. The latest figure was swollen by school-leavers and was in line with market expectations. It was lower than a year ago when 9 per cent of the workforce lacked a job. Economists say that, adjusted for seasonal factors, the unemployment rate is steady. This may disappoint the centre-right government, which is anxious for clear signs of economic revival just two months before a general election. An encouraging sign is that the number of people in jobs rose in June to 4.05m from 3.88m in May. The number of people participating in special training schemes was also down, falling to 177,000 from 240,000. *Christopher Brown-Humes, Stockholm*

■ Finnish unemployment rose to 19.9 per cent in June from 19.0 per cent in May, the Labour Ministry said yesterday.

Odessa flexes its old mercantile muscles

Europe's changing cities

The city can do again what it always did best, writes Chrystia Freeland

Even 70 years of communism failed to tame Odessa, established by Catherine the Great in the 18th century as the Russian Empire's most bustling warm water port.

Soviet rule pushed some of Odessa's sharp traders into the black market and others, from the Jewish community which accounted for a third of the population before the revolution, into emigration. But, with the collapse of communism Odessa, part of independent Ukraine, is again flexing its never entirely atrophied mercantile muscle.

Well appointed, if somewhat flamboyant, Greek, Jewish and Italian restaurants and boutiques are beginning to bring back some sparkle to the dilapidated tsarist mansions that line Odessa's main boulevards.

The men in shiny suits who dine there while their bodyguards and BMWs wait outside, are engaged in the business which has always been Odessa's natural mainstay – trade.

The flagship of Odessa's traders is Blasco, the Black Sea Shipping Company which is the largest merchant fleet in the former Soviet Union. In moving to the market, Blasco enjoys an advantage shared to a lesser degree by Odessa as a whole and by other former Soviet port cities, such as Vladivostok and St Petersburg.

"Regardless of whether we were part of the Soviet Union or in independent Ukraine, we've always been a marine company which has worked 100 per cent on the world market," says Mr Pavlo Kudiukin, president of Blasco, whose office is decorated with antique furniture and shiny western gadgetry. "Every single one of our sailors has worked in a market economy every day of his life."

This early exposure to the market means that Blasco is responding to the new realities of economic life in Ukraine with a nimbleness unusual in a massive state-owned company. It is ordering new vessels from shipyards in Ukraine, Slovakia and Germany to revive its rusty fleet, has set up a company in Cyprus to help attract foreign business and, within the next few months, is to be privatised with the help of the International Finance Corporation, the World Bank's private sector arm.

Mr Kudiukin is reluctant to disclose exact financial figures, but says Blasco's profits over the past five months were in the tens of millions of dollars.

However, for Blasco, as for the other large Ukrainian companies, the transition from the centralised Soviet economy has not been entirely smooth.

To start with, they were cast financially adrift with the collapse of the Soviet Union. At the time Blasco had $100m on deposit in Vnesheconombank, the USSR's foreign trade bank. "Now that the bank is outside the borders of Ukraine it is unlikely we will get our money back," says Mr Kudiukin.

Under the old regime, 70 per cent of Blasco's business came from central planners in Moscow. Now a third comes from Ukraine and the rest from Germany, China and Russia in that order.

Blasco ships the metals, sugar and grain that are Ukraine's traditional exports. An emerging new breed of Odessa merchants, such as Mr Mikhail Chertkov, head of Karolina-Nord, a private financial company, deal in more liquid assets.

Mr Chertkov, whose spartan office is decorated with lists of countries in which it is easy to set up off-shore accounts, caters to those Odessa businessmen who need help negotiating the financial labyrinth of the former Soviet Union with its various, non-convertible currencies and who wish to keep their hard currency earnings safely abroad.

"Given our anarchic banking system, our clients find it convenient to use our company to make swift hard currency payments for them within the former Soviet Union," Mr Chertkov explains. "The old command economic structures are gone, but no effective new mechanism exists."

One result of Ukraine's financial chaos, according to Mr Chertkov, is capital flight which he estimates at $15bn, between $6bn and 7$bn of which he believes has left Ukraine over the past two years. "This is all because of the idiotic tax policies of the government," Mr Chertkov says.

"If the investor climate changes all that capital will flow back and the EBRD [European Bank for Reconstruction and Development] and the IMF [International Monetary Fund] will be superfluous."

However, Mr Chertkov says his clients are prospering and re-directing their businesses. Russia, once the dominant economic player, now ranks behind the Baltics, Israel, Greece, Germany and the US in his clients' trade.

"Spiritually, we are very close to Russia, but in business we've very quickly re-oriented ourselves," Mr Chertkov says. "We've found better partners in the world market."

Mr Chertkov hopes that Odessa can become "the great wholesale bazaar for the entire former Soviet Union".

It is a dream shared by Mr Edvard Gurvitz, who survived an often implicitly anti-semitic campaign to be elected Odessa's mayor in elections on July 10. A free-wheeling businessman who is credited with sprucing up Odessa's centre when he was a city councillor, Mr Gurvitz hopes to establish a free-economic zone in the city.

Mr Leonid Kuchma, Ukraine's new president and one of Mr Gurvitz's political allies, supports the idea and consultants, funded by the EBRD, are already in Odessa to help work out the details of the plan, which, barring administrative obstacles, could come into force late next year.

Mr Gurvitz is hopeful that, with the added fillip of a free economic zone, Odessa's traders will be able to help pull the rest of the nation out of its economic doldrums.

"It's like what the Americans say about General Motors," Mr Gurvitz says. "What's good for Odessa is good for Ukraine."


The statue of Odessa's first governor, the Duke de Richelieu, looks out across the port

John Murray Brown reports on Ankara's difficulties in realising its critical privatisation programme

Turkey finds it hard to sell idea of buyer's market in state assets

Mr Tezcan Yaramanci is fond of remarking that privatisation is now a buyer's market. As the man in charge of Turkey's sell-off programme, he still has to convince the buyers.

For Turkey's privatisation is at a critical juncture. With access to the debt markets cut off, the government would appear to have little choice but to push ahead with rapid asset sales to bolster the balance of payments and see off a possible debt rescheduling.

Yet, only this month, the government has had its way blocked. The constitutional court invalidated its use of decree powers to speed up the programme, with the effect that parliament's approval will have to be sought for any legislative changes to prepare companies for sale.

The Turkish programme is suffering from a credibility gap. The latest wrangle over pricing in the oil industry, one of the sectors earmarked for disposal, merely points up the conflicting policy objectives of a government desperate to raise revenues for the budget, but also keen to keep a grip on headline inflation.

The companies on offer include oil refining and distribution, telecommunications, the state airline Turk Hava Yollari and a steel concern. Back in May, Mr Yaramanci predicted privatisation receipts would reach around $2.5bn (£1.6bn) in 1994. Today, he is less confident. "It's still the target we're running after. But if you consider we only managed to raise $1.7bn, in 10 years since the programme was launched, you know what we're up against," he says.

For few developing countries have talked about privatisation for so long with so few results. In some respects, Turkey's privatisation effort is a casualty of what a US banker called reform fatigue. Even today the government is engaged in little more than a revenue raising exercise – the Thatcherite targets of spreading share ownership and increasing economic efficiency are no longer mentioned. Indeed, in the current financial chaos, public offerings have been abandoned, with Mr Yaramanci concentrating instead on block sales of strategic stakes to industrial or trade buyers.

The programme faces three main challenges. First, the international market is abrim with privatisation offers from eastern Europe to Latin America and the Far East.

Second, it is all but impossible to put a value on Turkish assets, with the lira having depreciated by around 50 per cent since the start of the year. Exacerbating the problems, the government has yet to clarify key issues like labour restructuring and pricing, without which buyers are not able to forecast future earnings.

Third, there are any number of special interest groups who need to be won round to the programme, from labour unions concerned about redundancies, civil servants and politicians worried about loss of status and patronage – even some private sector companies fear increased competition that might result from divestiture. For example, it was on an appeal from Social Democrat deputies that the constitutional court on July 6 overruled the government's fast track legislation.

In today's conditions, bankers also point out that any disposal is likely to have to be at a large discount. This could play further into the hands of those who charge that this is little more than a distress sale. "It's the destiny of the man sitting in this chair," concedes Mr Yaramanci. "As you cannot possibly make an auction where all 60m Turks participate, there will always be criticism."

Labour issues remain particularly sensitive. The government has made some progress, introducing a job loss insurance fund which will compensate workers laid off for up to eight months after their dismissal. The catch is that financing for the fund has to come from the sales proceeds from privatisation.

As for labour restructuring, there are signs that the government may be backtracking on its earlier pledge to close down the loss-making Zonguldak coal mines and the Karabuk iron and steel works. Mr Yaramanci now talks of a "partial closure, laying off some personnel".

Only two weeks ago, the government had a foretaste of the sort of battle to come, when it publicly invited domestic bids for its 51 per cent stake in Eregli Iron and Steel company (Erdemir). Mr Yaramanci's comments to reporters that the company was probably not worth its replacement value, pitched him into a slanging match with one of the company's directors, who called his comments "criminal" and called for a stock exchange inquiry.

The decision to go to public tender for Erdemir is understood to have been against the advice of the consultants CS First Boston. The move is seen more as a measure of the pressure Mr Yaramanci is under from the politicians, motivated by the need to show the World Bank and others supporting the privatisation effort that the programme is still on track. Moreover, by inviting local bids, the government is also hoping to see off the criticism that domestic investors have been ignored – a problem which led to court action on earlier sell-offs.

Mr Yaramanci is understandably frustrated. However, not all the problems are within his control. The telecommunications sector has been embroiled in an embarrassing legal tussle. In April, Teletaş – a joint venture with Alcatel Bell and Turkey's first privatisation – was forced to seek court protection from its creditors, as a result of the failure of the state telecom monopoly PTT to pay for its equipment supplies. The issue has since been resolved with Citibank last week lending $165m to the government to allow the PTT to settle its debts. However, the incident can hardly have helped the planned PTT privatisation.

Conflicting policy objectives are equally apparent in the petroleum sector. Here, the foreign oil majors, now being courted to take a stake in the industry, complain that the government is using its control over the state run Tupraş refinery, to hold down domestic oil prices, causing additional losses at both Tupraş and the state-run retailer Petrol Ofisi.

Mr Yaramanci insists that with privatisation of Tupraş, 70 per cent of refining capacity will be in private hands, ensuring a level playing field. "We will offer comfort and security to investors," Mr Yaramanci declares. However, in the next breath, he reveals that the government may seek certain industrial conditions "to protect employment and secure some capacity increases or additional investments".

As one banker put it: "He may talk about a buyer's market, but then he seems obliged to introduce all these seller's conditions."

Nigerian protesters claim 20 killed in clashes

By Paul Adams in Lagos

Nigeria's striking oil unions said yesterday their leaders had disappeared, as witnesses to clashes in the commercial capital Lagos between demonstrators and security forces reported a number of deaths.

The Campaign for Democracy, which is seeking the removal of the military government, said 20 people were killed. One witness said a man in military uniform had been left dead by a rioting crowd, while another unconfirmed report said eight people were shot by armed security forces.

The oil workers are demanding that General Sani Abacha's regime uphold the result of the June 1993 presidential election – which was annulled after Mr Moshood Abiola emerged as the apparent winner – and reverse its cuts in investment in the oil industry. Mr Abiola has been arrested and faces trial for treason at the end of this month.

Nupeng, the junior oil workers union which is entering the third week of its strike, says its leader Mr Frank Kokori is under arrest, which is denied by the police. Pengassan, the senior staff union which joined the strike a week ago, says it does not know where its two top officials are.

The oil workers yesterday ruled out an end to the strike until the military government hands over to civilian rule and denounced as a sell-out talks at the weekend between the government and other trade unions over an end to the strike.

Some of the 41 unions which make up the Nigeria Labour Congress (NLC) began a two-day meeting in Kaduna yesterday to consider a national stoppage in support of Nupeng, especially if any of the strikers were badly treated. The NLC has sided with the government in previous crises and avoided all-out strikes, but as an umbrella for the labour movement it does not control individual unions.

Factory workers have been on strike in support since last week in Lagos, where most of the industrial area is shut either because of strikes or the lack of electricity and fuel.

Some multinationals operating in the Lagos area say they have between a week's and two weeks' supply of industrial fuel, diesel and petrol. The strike has stopped deliveries of petroleum products to filling stations and big industrial users, mainly in the south-west of Nigeria.

Shell, which produces half of Nigeria's estimated 2m barrels of oil a day, said: "It is affecting production in a small way but we are meeting tanker delivery schedules. Gradually the strike is taking effect."

Senior management and expatriate staff, who are not union members, are trying to maintain essential services. Pengassan has warned of reprisals against strike breaking but were not specific about the action they intend to take.

Desert tribes meet to bury their differences

By Julian Ozanne and James Whittington on the Israeli-Jordanian border

Like two warring desert tribes, Jordan and Israel met yesterday in a modern version of a Bedouin tented camp on their disputed sun-baked border to settle old scores and draw up a peace treaty.

Sheltering from the 40°C desert heat in an air-conditioned white and yellow striped tent, Israeli and Jordanian officials and army generals sat at a table straddling the border and shook hands.

The bilateral talks, the first to be held publicly in the region, focus on border, water and refugee issues and aim to lay the groundwork for peace.

Tight security ringed the sandy area where Israel, amid isolated palm trees and scrub, cleared away barbed wire and land mines and constructed a small encampment complete with generators, portable toilets and dozens of telephone lines and faxes. In the background loomed the chocolate brown hills of Wadi Rum from where Lawrence of Arabia descended to capture Aqaba in 1917 and spark the Arab revolt against the Turks.

Both sides emphasised the significance of the site. Mr Elyakim Rubinstein, head of the Israeli delegation, said: "This meeting takes place in a tent. The tent is tentative, but peace should and will be permanent. We are at a very warm spot of our two countries – it is only natural to express the hope that Israeli-Jordanian peaceful relations will be warm forever."

Ambassador Fayez al-Tarawneh, head of the Jordanian delegation, said: "We hope that our location which bears testimony to the imperatives of geographic proximity and inter-dependence will inspire us to arrive at tangible results so that the fruits of our common endeavours may be felt by ordinary men and women in our long-suffering region."

Israel put up a white iron gate in the border fence and many Israeli officials, soldiers and journalists who passed through were taking their first steps on Jordanian soil.

Several Israelis posed for photographs to capture the sense of history. Outside Israeli soldiers milled around sipping cola at a portable snack bar set up by Shechem, the Israeli army caterers.

On the Jordanian side, guests at the Aqaba Holiday Inn watched an Israeli TV journalist talking in Hebrew on a mobile phone to Jerusalem while issuing instructions to a Jordanian camera crew. Mobile phones and Israeli citizens are banned in Jordan.

On the exit road an Israeli dished out a glossy promotion brochure on the tourist resort of Eilat with a special statement from the town's mayor, Gabi Kadosh – a long-time enthusiast of Jordanian-Israeli co-operation in tourism. He called for urgent co-operation and sharing of facilities such as airports, transport and water resources between Eilat and Aqaba. "Since our first presence in this region we have dreamed of peaceful relations with our next-door town of Aqaba. Eventually this day has been reached."

Jordanian delegation head Fayez al-Tarawneh (right) looks to his Israeli counterpart Elyakim Rubenstein as peace talks start Reuter

HK notes to mature after handover

By Simon Holberton in Hong Kong

Hong Kong's Monetary Authority, the colony's central bank, is to test investor sentiment towards the transfer of sovereignty to China when on Monday it offers HK$500m (£41.5m) of three-year notes that mature on July 28, 1997.

The authority said yesterday that Beijing's approval had been obtained to conduct a borrowing programme, even if repayment was beyond July 1, 1997, the day sovereignty passes to China. Through Mr Joseph Yam, its chief executive, the authority has established close working relations with the People's Bank of China, Beijing's central bank.

The authority said it expected the notes would be well received. They carry a coupon rate of interest of 6.95 per cent. "We believe the market has discounted the 1997 factor," an official said.

The issue of three-year paper is part of the authority's attempt to establish the basis for a debt market in Hong Kong. It now issues securities with maturities ranging from three months to three years and is considering the issue of a five-year note.

The notes and bills are sought after by banks. The authority operates a discount window at which banks can cash notes and bills for overnight funding.

Bills have been issued since 1991. The value of outstanding notes and bills at the end of June was HK$44bn. These securities are backed by Hong Kong's exchange fund, a government reserve established to maintain the value of the Hong Kong dollar, which the authority manages.

US firm over lifting sanctions on Iraq

The US last night took a firm stand against lifting the embargo against Iraq even as Baghdad sought improved relations with its Arab neighbours and boasted of co-operating with the United Nations, writes Michael Littlejohns, UN Correspondent, in New York.

As the Security Council conducted its periodic review of sanctions Ms Madeleine Albright, the US ambassador, asserted that this "limited co-operation" was sporadic, selective and opportunist.

She said Baghdad was trying only to escape sanctions while ignoring other requirements imposed by the Council.

The US was convinced that what co-operation had been seen would cease once Iraq was enabled to sell oil. While Baghdad still had not revealed fully its mass destruction weapons programme, it was already contacting former suppliers or middle-men to purchase new armaments.

Although France, Russia and some third world states are eager to have the Council acknowledge that Iraq has made progress towards implementing Council resolutions, Ms Albright said it was premature to discuss either the terms or the timing of modifying sanctions.

Mr Tariq Aziz, Iraqi deputy prime minister, who is in New York, has accused some states – implicitly the US and Britain – of obstructing an easing of the embargo.

Both countries have veto powers.

Murayama promises a more gentle and humane Japan

Mr Tomiichi Murayama, Japan's new socialist prime minister, yesterday sought to improve the weak popularity of his government by promising a more gentle and humane Japan, writes William Dawkins in Tokyo.

The fourth administration of the past year will be "people friendly... a government you can feel at ease with" and will strive to make Japan "not to be a powerful country but a caring country," Mr Murayama told parliament in his inaugural policy speech. He promised tax cuts, "trust worthy politics," no change in defence policy, and a more discreet international profile, in an attempt to assuage popular anxiety over the coherence of the left-right coalition, which seized power in a parliamentary coup three weeks ago.

Mr Murayama openly confirmed for the first time yesterday that he would abandon some of his Social Democratic party's more extreme policies, such as seeking to disband the military, so as to fall in line with the dominant coalition partner, the conservative Liberal Democratic party.

Policy rows with the left wing helped destroy the previous two centre right-led coalition governments, but Mr Murayama's socialist colleagues appear readier to suppress old ideologies to stay in power now their leader has become prime minister.

Mr Murayama took care to avoid controversy yesterday. He made no direct reference to a rise in sales tax, which the finance ministry insists is needed to fund the drop in income tax and pensions.

However, Mr Murayama planned to "seek the understanding of the people" to reform the tax system by the end of the year. He aimed to put government finances, where the state has over Y200,000bn (£1,310bn) of outstanding bonds, on a "sound footing."

On the economy, he promised to strive for exchange rate stability and for a "highly significant decrease" in the current account surplus, which reached a record $60.01bn (£38.5bn) in the first half of this year. To that end, Mr Murayama's government will press ahead with deregulation, to cut prices and to dismantle barriers to new businesses.

On defence, he promised to uphold the US-Japan security treaty, under which 24,000 US troops are deployed in Japan, and to maintain a minimum defence capability. This will help assuage widespread public anxiety on Japan's readiness to face a threat from North Korea, but implies a steep climbdown by the SDP's left wing when the party holds its next policy conference in September.

On foreign affairs, Mr Murayama toned down Japan's bid for a permanent seat on the UN Security Council and said he wanted a "thorough discussion of the rights and responsibilities" involved. His call for a nation of peace that does not flaunt economic or military power marks a contrast to the previous two governments' desire for a higher world profile.

On domestic politics, Mr Murayama confirmed that he would not call an election until after new constituency boundaries have been drawn, the final stage of a five-year campaign to curb corruption and make politics more responsive to the electorate.

Murayama: will value kindness

MONEY SUPPLY GROWTH FALLS

Growth in Japan's money supply slowed in June for the second successive month due to stagnant bank lending, as the sluggish economy continued to affect demand for funds, writes Emiko Terazono in Tokyo.

The Bank of Japan said M2 plus certificates of deposit grew 1.5 per cent from a year earlier, down from 1.7 per cent for May. Money supply grew 2.2 per cent in April.

While recent hot weather has boosted retail spending, spurring hopes of an imminent economic recovery, demand for funds for capital investment remains weak. Bank lending in June fell 0.1 per cent from the previous year compared with the 0.3 per cent rise in April and the 0.1 per cent rise in May.

Brokers Barclays de Zoete Wedd said growth of M2 plus certificates of deposit could recover to 3 per cent by the year-end if currency markets stabilised, prompting a modest economic recovery.

However, deterioration of balance sheets at banks may curb credit creation once recovery is under way, in turn limiting the economic rebound.

Sino-Indian trade route reopens

By Shiraz Sidhva in New Delhi

India and China yesterday agreed to reopen an ancient trade route after 32 years, as Mr Qian Qichen, China's vice-premier and foreign minister, said during a visit to New Delhi that he hoped border disputes between the two countries would be resolved soon.

Mr Qian and Mr Manmohan Singh, the Indian finance minister, signed an agreement for the avoidance of double taxation and the prevention of fiscal and tax evasion. The agreement provides for lower rates of taxation for income generated by transfer of technology and investment, with guidelines to resolve tax disputes and provisions for exchange of information on tax evasion.

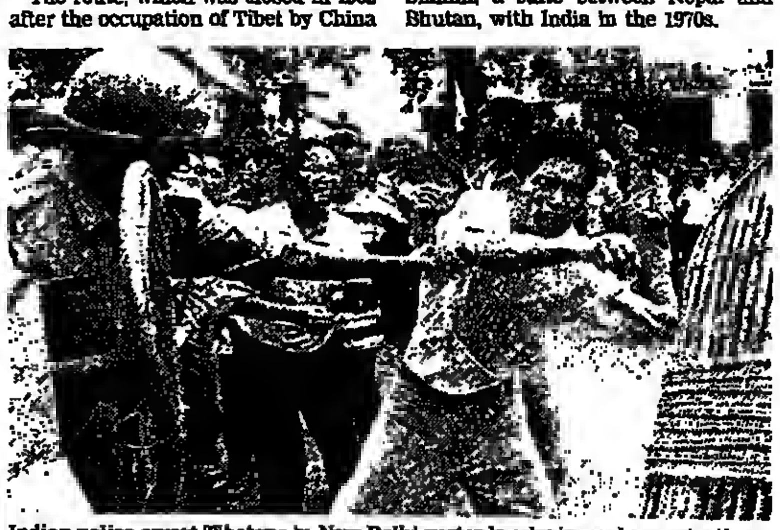
An ancient trade route through the Shipkila Pass on the border of Kinnaur district in Himachal Pradesh was formally restored with the signing of a protocol by the two governments.

The route, which was closed in 1962 after the occupation of Tibet by China and the Indo-China war, will be serviced by trading complexes at Chhapan on the Indian side and Jueva on the Chinese side.

Mr Qian said he hoped bilateral trade, which increased to $675m (£433m) in 1993-94 from $220m the previous year, would register further dramatic growth. The two countries also agreed to strengthen economic and technical co-operation in the steel sector. India's iron ore exports to China touched nearly 4m tonnes in 1993-94.

Mr Qian's visit is the latest in a series of talks aimed at improving relations between Asia's two largest countries. Mr P V Narasimha Rao, Indian prime minister, visited Beijing last September, when an agreement to maintain peace along the 4,000km Sino-Indian border was signed.

However, the two countries have been unable to reduce troops along the border or resolve several long-standing disputes, including China's refusal to accept the merger of Sikkim, a state between Nepal and Bhutan, with India in the 1970s.



Indian police arrest Tibetans in New Delhi yesterday during a demonstration against the visit of Chinese foreign minister Qian Qichen Reuter

China's economic growth rate slows

China's economic growth rate tapered off in the six months to June from last year's unsustainable levels but inflation was high, according to official statistics yesterday, Our Beijing Correspondent writes.

Real gross domestic product rose 11.6 per cent compared with the same period last year, according to the State Statistics Bureau. This compares with 12.7 per cent growth for 1993 against 1992 and 13.9 per cent for the first six months of last year compared with the same period in 1992. The slowdown reflects the Chinese government's credit restrictions and other measures to prevent overheating.

The consumer price index in the 35 biggest cities was up 23.7 per cent for the six months compared with the corresponding period last year. For all of 1993 the rise was 19.6 per cent.

The latest growth rate for fixed investments was 25.2 per cent, sharply down from the runaway rate of 61 per cent a year ago.

Consumer spending was growing at a real rate of 4.8 per cent, according to yesterday's figures, compared with 21.6 per cent a year ago, indicating that a wave of panic buying last year has ended.

Pepsi-Cola may face boycott

Pepsi-Cola faces a threat of a boycott from consumers in the Philippines' main sugar-producing island of Negros because it is using imported sugar for its production of soft drinks, writes Jose Galang in Manila.

The boycott is being instigated by Negros-based Confederation of Sugar Producers Associations and National Federation of Sugar Planters, and has gained support from Negros representatives in the Philippine Congress.

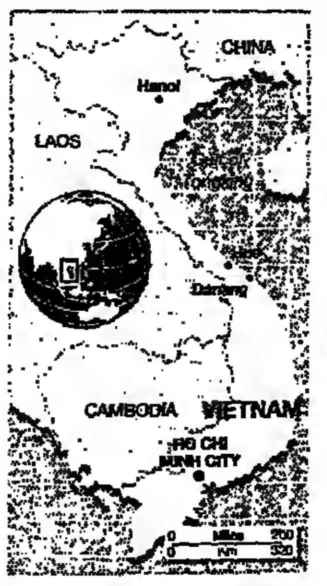
The dispute stems from the import of 15,000 tonnes of refined sugar worth $1.9m made by Macondray, an affiliate of Pepsi. Macondray imported the sugar due to a reported shortage of the commodity in the local market.

However, sugar growers in Negros insisted that the 13 sugar mills on the island were holding sugar stocks of some 240,000 tonnes. The local sugar industry directly employs some 500,000 people.

Central Vietnam wants to join high-flyers

Provincial officials are tired of being passed over by investors, writes Victor Mallet

From the moment the communist government began liberalising the economy in 1987, the inhabitants of central Vietnam complained that almost the only signs they saw of foreign investors and tourists were the glinting wings of aircraft 30,000 feet up shuttling between Hanoi and Ho Chi Minh City.



Of the $8bn in foreign investment projects approved throughout the country, only 25, valued at $163m (£104m), are located in Quangnam-Danang, the most important of the central provinces sandwiched between the South China Sea and the mountains on the Lao border.

And of that $163m, only a quarter has actually been spent so far, according to local officials. Investments include a gold mine, a granite processing factory, seafood and furniture export businesses, and a German-Italian-Vietnamese venture making freight containers.

"We have a lot of investment in Ho Chi Minh City and Hanoi and not enough here," says Mr Doan Ngoc Dau, a member of the communist provincial people's committee in Danang.

After years of neglect, the national government is attempting to revitalise the stagnant economy of central Vietnam. Foreign investors facing stiff competition elsewhere are also looking at the region's opportunities for industry and tourism with renewed interest.

Among the main obstacles to economic growth were the conservatism and corruption of the communist cadres and army officers who control the region, scene of the fiercest battles in the Vietnam war. In May, however, the Hanoi government cleared out some of the dead wood.

According to Mr Dau, the chairman of the provincial people's committee was retired, the regional Communist party chief was replaced with someone more dynamic, and the chairman of Danang city people's committee and one of his deputies were fired for making "mistakes in land distribution".

The reshuffle was welcomed by the emerging private sector in Danang where most businesses in the area are still controlled by the armed forces or the Communist party and where official discrimination against those whose relatives fought on the American side was only recently ended.

"Leaders here have been frightened of making decisions, because they are afraid they will be responsible for any problems," says Ms Truong Thi Kim Anh, of the Danang branch of the Vietnam Chamber of Commerce and Industry. "But now the bureaucratic system is improving a lot."

Although state companies remain dominant – only 20 of the chamber's 200 member companies in the central region are from the private sector – entrepreneurs have gradually begun moving into import-export businesses, retailing and tourism services, including small hotels.

Many such individuals are former government employees, including one of Ms Anh's colleagues, who recently decided to set up his own business exporting furniture.

For potential foreign investors, tourism has been the main focus in central Vietnam. The area around Hue, the former imperial capital, has many tourist attractions, not least the Vietnam war battlefields now frequently visited by Americans.

Danang is close to the picturesque old town of Hoi An and to many beaches, including the one known to Americans as China Beach. The annual number of foreign visitors to Danang trebled to 33,000 between 1991 and 1993, and some 28,000 have already arrived in the first half of this year, many on cruise ships.

A Hong Kong company has begun work on a $24m beach hotel due to be completed at the end of next year, and an American consortium has plans to build a $250m resort with several hotels and a golf course; both projects are joint ventures with the local authorities.

On the industrial front, a Malaysian-Vietnamese venture has started to build a $24m export processing zone near Danang. Quangnam-Danang province alone wants to attract $1bn in foreign investments by the end of the decade. Boasting of its mineral, agricultural and marine resources, the province has drawn up a list of more than 70 possible projects.

Foreign investors, some frustrated by bureaucracy and corruption in the past, are likely to remain cautious, but there are signs of more activity. Shipping companies are opening offices in Danang and the number of cargo vessels calling at Danang port has risen to about six a week, says Ms Anh.

An attempt to make Danang an international air gateway with flights to Taiwan failed but at least some of the domestic flights packed with tourists and investors are landing at Danang these days.

Indonesia offers East Timor talks

Indonesia yesterday marked the 18th anniversary of its annexation of East Timor by offering to negotiate with guerrillas opposing the takeover, but the authorities warned that they would come down hard on lawbreakers, Reuter reports from Dili.

East Timor came under renewed international scrutiny after hundreds of mainly Catholic protesters were beaten back last Thursday by police. It was the most violent confrontation there since troops gunned down up to 200 demonstrators at a funeral in Dili in 1991.

Palau to end UN trust status

Palau will end its status as the last United Nations trust territory in the Pacific on October 1 and will be formally linked to the US, said Palau President Kuniwo Nakamura, Reuter reports from Guam.

Under an agreement with the US approved by Palau's voters, the islands will become self-governing, with Washington retaining responsibility for external defence.

Nabisco and Pfizer launch fat substitute

By Victoria Griffith in Boston

Nabisco Foods Group and Pfizer Food Science yesterday announced the launch of a fat substitute, Salatrim, to be used in low-fat chocolate bars, ice cream and cheeses.

Nabisco, a unit of RJR Nabisco, hopes to launch the product in chocolate bars by mid-1995, breathing new life into the faltering fat substitutes industry.

Satisfactory fat substitutes have been difficult to develop without destroying the taste of products, as fat carries taste to the mouth.

Those that have been developed have also experienced difficulty in gaining Food and Drug Administration approval. Procter & Gamble's Olestra has been mired in the approval process for years.

However, Salatrim is unlikely to get delayed by the FDA, according to Mr Hank Sandbach, a spokesman for Nabisco Foods Group, because it is made from natural substances.

It has also solved the problem of taste, its makers claim, by combining fat substitutes with fat.

Derived from short-chain acids found in vinegar and cheeses, and steric acids found in vegetable oils, Salatrim contains fewer calories than traditional fats because it contains more large molecules, which are not so easily digested.

Salatrim contains five molecules of fat per gram – more than competing fat substitutes, but less than traditional fat.

The market for low-fat products in the US is potentially great, with Americans showing increasing concern about their weight, as evidenced by the explosion of the diet industry.

Americans also seem to be fighting a losing battle with fat. The number of obese adults in the US has surged dramatically over the last ten years, according to a recent study by the National Center for Health Statistics, part of the Centers for Disease Control and Prevention.

Between 1960 and 1980, a quarter of all American adults were judged obese. By 1991, that had jumped to one third.

"The government and health organisations have been pushing Americans to lower their fat intake for years," said Lyn Nabors, executive director of the Calorie Control Council in Atlanta. "But the message is not really getting through. Consumers don't seem to want to sacrifice taste at all, which is why a good-tasting fat substitute is so important."

Pfizer Food Science says it hopes to launch ice creams, cheeses, and baked goods made with Salatrim soon. Margarines and spreads will be introduced later. So far, the company has not found a way to use the product for frying.

Probe of Mexican group widened

By Damian Fraser in Mexico City

The office of Mexico's attorney-general has widened its investigation into Grupo Financiero Havre, a financial services group in Mexico City, for alleged embezzlement of more than $100m (£65m) from state development banks.

The government alleges that Havre set up more than 70 phantom companies which illegally borrowed more than $100m (some in pesos, some in foreign exchange) from Nafinsa and Bancomext, two state development banks.

The money was alleged to have been diverted into other companies owned by the family of Mr Julio Mariscal, the Havre chairman.

He is one of Mexico's most prominent businessmen. In addition to controlling Havre, he owns the Mexican concession to sell General Motors cars.

In 1992, Mr Mariscal bought the brokerage Casa de Bolsa México for about $60m.

Havre is Mexico's 18th largest financial services group, with insurance, brokerage, factoring and leasing subsidiaries. Government officials have now assumed supervision of the group.

Last month, Havre's insurance arm was accused by the finance ministry and the national banking commission, a regulatory body, of failing to report financial information, of alteration of financial records and over-reporting its level of capitalisation.

The attorney-general is taking legal action against at least 24 Havre executives, including Mr Mariscal, his son, the company's top legal officer, Mr Ricardo Nevárez, the vice-chairman of the insurance arm, Mr José Antonio Aguilar, and the company's entire board of directors.

Mr Mariscal is reported to be in hospital in the US, with proceedings under way to extradite him to Mexico, while Mr Nevárez has is reported as having disappeared.

IMF 'facing a busier future'

By Michael Prowse in Washington

The International Monetary Fund's second half-century will be busier than its first, if Mr Michel Camdessus, the managing director, has his way.

Setting out his vision of the IMF's future at a Washington news conference, he said it needed to play a larger role as a manager of the international economic system, while increasing its efforts to promote sustainable growth in former communist countries and the developing world.

He said big changes in the 50 years since the IMF and World Bank were created, at Bretton Woods in New Hampshire, included the greater mobility of international capital and the bigger role of developing countries in the global economy.

The globilisation of economic activity brought about by capital mobility made national economies more interdependent and made effective central co-ordination of policies more necessary than ever. However, he signalled that the consultative process of the Group of Seven leading industrial countries was not ideally suited to the task because it excluded developing countries.

It was "crystal clear that we must try to promote more participatory decision-making", with developing countries playing a role commensurate with their economic importance.

The IMF's interim committee, which meets twice a year and includes 24 finance ministers from industrial and developing countries, provided a "remarkable framework for participatory decision-making." Its role should be strengthened to reflect the challenges posed by globalisation of the world economy.

Mr Camdessus brushed aside a suggestion by the Bretton Woods Commission – an independent group of experts headed by Mr Paul Volcker, a former chairman of the US Federal Reserve Board – that the IMF should focus on its global monetary responsibilies and not duplicate the work of the World Bank in promoting growth in developing countries.

IMF chief Michel Camdessus: Looking forward to the fund's second half-century Picture Tony Andrews

The fund, he said, needed to do more, not less. It was working on a package of measures to increase economic support for clients, especially ex-communist countries, involving increased access to its loan facilities and a new allocation of special drawing rights (SDRs), the fund's artificial reserve asset created in the 1960s to supplement global stocks of gold and foreign exchange reserves.

Mr Camdessus said countries planning to implement strong adjustment programmes under stand-by or extended fund facilities should be able to borrow up to 90 per cent, rather than 68 per cent, of their quotas with the fund. (An IMF quota is akin to the membership fees paid when joining a club.) He also favoured increased access to the systemic transformation facility, a loan facility designed for former communist countries.

On SDRs, two options were being discussed. Equity considerations justified a restricted allocation to the 37 countries (including some eastern European countries and the former Soviet Union) which had joined the fund since the last allocation in 1981. However, he believed there was also a strong case for a general increase in SDRs to all members to increase global liquidity when inflation was low.

Mr Camdessus said he would continue to press all members to make their currencies fully convertible on current account transactions. At present, only 93 of 179 had achieved this.

But it was time "for the IMF to go an extra mile" and insist that members also liberalise transactions on capital account, which had not been envisioned by the fund's founding fathers. Free capital flows would promote greater efficiency in resource allocation.

However, although greater capital mobility was desirable, it also raised the "risk of sudden crises", even in countries with sound policies. So, Mr Camdessus would continue to press for the creation of a new IMF facility to give members resources with which to defend themselves against speculative attacks in financial markets.

Bargaining setback for pulp unions

The British Columbia Labour Relations Board has ordered the province's pulp and paper unions to negotiate with companies individually, reversing a 50-year tradition of industry-wide bargaining, reports Robert Gibbens from Montreal.

The unions have been without a contract for several months and, with surging company profits, had insisted that industry-wide bargaining be a precondition of serious negotiating.

The board ordered the unions to proceed with negotiating new labour contracts with a dozen big companies. It said the unions' stand for industry-wide bargaining flouted current labour laws requiring bargaining in good faith. The companies ended industry-wide bargaining last January.

Canadians ease internal barriers

By Bernard Simon in Toronto

Canada's prime minister, Mr Jean Chrétien, and leaders of the 10 provinces yesterday signed a long-awaited deal to ease internal trade barriers.

The agreement falls short of the federal government's aim of dismantling the plethora of non-tariff curbs maintained by the provinces but business groups have welcomed it as an important first step.

Yesterday's signing ceremony in Ottawa was also designed to send a message to Quebec, where the ruling Liberals are about to embark on an uphill election campaign against the separatist Parti Quebecois.

Mr Daniel Johnson, Quebec's outspokenly federalist premier, needs to show voters that the francophone province will fare better as part of Canada than by breaking away. Mr Johnson is expected to call an election later this week for September 12.

The PQ leader, Mr Jacques Parizeau, has scoffed at the inter-provincial trade agreement, noting that it falls short in many respects of the North American Free Trade Agreement (Nafta) and multilateral trade pacts to which a sovereign Quebec would be a signatory.

Among areas covered by the package are government procurement, labour mobility, transport licences and product standards. The deal also includes a weak dispute settlement mechanism. However, Ottawa and the provinces were unable to agree on contentious areas such as energy, alcohol and agriculture.

Bomb attack on Jews kills 16

At least 16 people were killed yesterday, and dozens injured, by an explosion in Buenos Aires which leveled a seven-storey building housing two Jewish groups, agencies report from Buenos Aires.

In Jerusalem, Mr Shimon Peres, Israeli foreign minister, said he was sure the explosion was a terrorist attack, while the World Jewish Congress in New York called on all Jewish organisations to take immediate security precautions.

An estimated 100 people had worked in the building, which housed the Delegation of Argentine-Israeli Associations, the country's principal Jewish community organisation, and the Argentine Israelite Mutual Association, a charity group.

The cause of the blast had not been determined by yesterday afternoon, but Argentine President Carlos Menem said be believed it had been an attack planned "from abroad and belped by people bere".

He immediately sealed Argentina's land borders, ports and airports to try to prevent the escape of any suspected bombers. Passengers who had already boarded flights were brought back to airport terminals while investigations took place.

In March 1992, a bomb destroyed the Israeli embassy in central Buenos Aires, killing at least 28 people and injuring more than 220. Responsibility for that blast has not been determined, despite fears of further attacks. A rash of telephoned threats to Jews in Argentina for about a month afterwards led to police being stationed at Jewish schools, cemeteries and cultural centres.

There are 250,000 Jews in Argentina, most of them in Buenos Aires.

Mr Yitzhak Rabin, Israeli prime minister, called the new attack "a cowardly, criminal and evil act". He vowed that "Israel will continue to chase the perpetrators of terrorism to the end".

France urged to block shipyard pact

By John Ridding in Paris and Emma Tucker in Brussels

French shipbuilders yesterday condemned the weekend agreement on eliminating subsidies in the shipbuilding industry, claiming their competitors would benefit from indirect subsidies that would be left intact. Shipbuilders also urged the French government to try to block the accord.

"It is a very bad agreement," said Mr Fabrice Theobald, general secretary of the Chambre Syndicale des Constructeurs de Navires, the French shipbuilders' association. He compared it to the Blair House agreement on agricultural trade between the European Union and the US, which reduced farm subsidies and was bitterly opposed by French farmers.

The French government was alone in rejecting the agreement reached after a week of negotiations at the Organisation for Economic Co-operation and Development in Paris. France said it wanted negotiations to continue – to reach a consensus "which respects the interests of all parties".

According to Mr Theobald, the principal French industry objections relate to indirect subsidies which, he says, are left intact under the agreement. He cited home credit schemes, under which shipowners get preferential interest rates for ordering ships at domestic yards and development and research grants.

The French industry also opposes the Jones Act, under which US coastal trade is restricted to vessels built in US yards. "We see no reason why this act should receive a blessing in the agreement," said Mr Theobald.

The CSCN said that the French government could and should block the OECD agreement by invoking vital national interests.

Mr Theobald said that the French industry had restructured as far as possible and that, over the past 10 years, the number of big shipyards had been reduced from seven to two, while the number of shipyard workers had fallen from 20,000 to 5,000. "We have no more fat left, only nerves and muscle," he said.

France yesterday played down suggestions that it would invoke special powers to protect subsidies paid to its ailing shipyards which have come under threat from the new international agreement.

At a meeting of foreign ministers in Brussels, the French reiterated their opposition to the deal between the US, EU, Japan, South Korea, Finland, Norway and Sweden to end direct and indirect subsidies to shipyards in these countries.

The French argued that the agreement would not ensure fair competition because it allowed certain countries – notably Spain, Portugal and Belgium – to continue paying subsidies linked to existing programmes. France was offered a similar deal but turned it down, preferring to hold out for total exemption.

Suggestions that France would evoke the so-called Luxembourg compromise – which allows a country to veto an agreement – were dismissed as premature. The matter is likely to be discussed again at the next foreign ministers' council meeting. The agreement must be ratified by all participants and is due to take effect at the beginning of 1996.

Subsidies deal signals softer US line

By Our Foreign Staff

The agreement on eliminating shipbuilding subsidies reached on Sunday follows five years of negotiations, chiefly at the insistence of the US.

Two main issues that nearly scuppered the discussions earlier this year were hammered out at last week's talks: European objections to the US Jones Act, under which a fixed proportion of cargo passing through US ports must be carried in vessels built in US yards; and concern about South Korean plans to increase shipbuilding capacity by 40 per cent over five years.

Mr Staffan Sohlman, the Swedish chairman of the OECD committee overseeing the talks, made clear that last week's meeting was "make or break".

Under the agreement, the Jones Act stays in place but its scope is limited. France is still objecting to this part of the deal, although it could be overruled in a European Union vote.

There is still some concern about capacity increases in the absence of subsidies, but other concerns helped to concentrate minds in the final days of the OECD talks: the US threats of unilateral action over subsidies, and the prospect that a trade war could follow. The Clinton administration made clear earlier this year it was ready to back legislation enabling penalties against subsidised vessels. The Gibbons bill before Congress would have authorised sanctions on subsidised foreign vessels entering US ports.

It was realised that failure to secure agreement could threaten a ruinous price and subsidy war and remove any chance of controlling dumping. In these circumstances, retaliation could have brought about a wider trade war.

Details of the agreement are still confidential until discussed in the EU Council of Ministers. However, the main points are:

● All subsidies, direct and indirect, except for research and development, will be banned from January 1 1996, when the agreement takes effect. Subsidies already granted will be permitted after the ban comes into effect, but limited to ships for which contracts are signed before the end of 1995 and which are delivered by the end of 1998. Some experts fear that this allowance may produce a last-minute subsidy rush.

● Export credits for ships are brought under the "Helsinki rules", the disciplines already agreed in the OECD for the application of general export credits. Disputes procedures have been agreed, so that suspected breaches can be challenged judicially.

● A mechanism has been established to prevent "injurious pricing", such as in cases of dumping. This was an important concession, especially by the Koreans and the Japanese, who had long resisted the idea. It will be enforced by disputes panels, similar to those in the General Agreement on Tariffs and Trade, which will have the power to award damages.

● The US has agreed to a cap of 250,000 gross tonnes annually on the capacity built under Jones Act provisions. If the US exceeds this ceiling, disputes procedures may be opened against it.

● Countries may provide domestic credits on terms equivalent to export credits.

Talks were conducted within the OECD, rather than Gatt because the normal Gatt principles do not apply to ships, which technically are never imported.

The agreement, which will be monitored, covers 75 per cent of world shipbuilding. The rest is carried out mainly by Russia, Ukraine, Poland, China and Brazil.

Efforts will be made to extend the agreement to these countries. In Poland's case, its accession may be linked to its planned membership of the OECD. Prospects for Russia, Ukraine and China appear less hopeful. However, the OECD participants plan wider talks on the industry with these countries in the next 12 months.

'No clear winners and losers'

Industry cautiously welcomes OECD shipbuilding deal, writes **Andrew Baxter**

The world's main shipbuilding countries and shipowners yesterday welcomed the multilateral agreement to scrap subsidies, but differed on who would be the winners and losers.

Observers said that while anything that removed a distortion of free trade was a positive step, other factors such as the industry's manufacturing capacity and the state of the shipping market were more important influences on the supply and demand balance that dictated prices.

"We are very pleased. This is a solution that the US has been working to bring about for five years," said Mr John Stocker, president of the Shipbuilders' Council of America. The agreement (which was negotiated at the Organisation for Economic Co-operation and Development) was not perfect, but would reduce government interference in shipbuilding and impose discipline on the industry.

Large shipowners, he said, would benefit as marginal owners would not be supported by subsidised prices. On the other hand, overall prices would have to rise, as they would have truly to reflect shipyard costs.

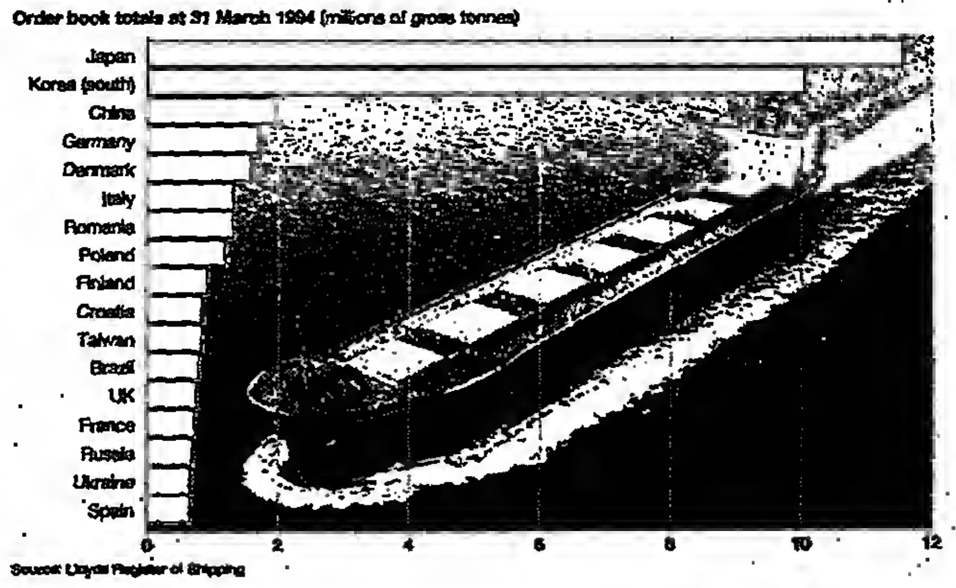
Shipowners accepted this was a likely consequence, but remained unflustered. The UK's Chamber of Shipping, which represents shipowners, said excessive subsidies caused too much ship-buying, which lead to "over-tonnaging" – too many ships chasing too little freight business.

Mr Nick Granger, director of the UK's Shipbuilders and Shiprepairers Association, said the effect on the UK shipbuilding industry would be broadly neutral, so long as the agreement worked as it should do.

It would not have been in anyone's interests to allow a spiral of state aid to the industry, he said. "But unless there is more or less a balance between supply and demand, you will not have conditions where zero subsidies can stick." UK shipbuilders, therefore, were worried by the "massive amount" of shipbuilding capacity increases being planned by South Korea.

Leading shipbuilding nations

Order book totals at 31 March 1994 (millions of gross tonnes)



Source: Lloyd's Register of Shipping

Mr Granger also warned that, unless countries were in the OECD, their ships would not be covered by the agreement's mechanism to prevent injurious pricing. "The Chinese, Malaysians and others are all putting ships on to the market at cut-throat prices, which I don't think have much to do with reality."

According to Mr Simon Quarrell, a consultant at KPMG Peat Marwick and author of a 1992 report on the competitiveness of European Union shipyards, the winners in the European shipbuilding industry would be the low-cost, high-efficiency yards which could compete on a fair and equal basis with other yards, if that was allowed.

"These would be some yards in Germany, Denmark and the Netherlands, and individual yards across Europe, including Italy and France, where some yards are world-class in certain market sectors.

"But there are other yards which are effectively being buoyed up by subsidies that should be given the chance to go bankrupt."

Kvaerner, Europe's biggest shipbuilder, saw itself as a winner from the deal. "If this agreement is fully implemented, it will boost our shipbuilding potential significantly," said Mr Diderik Schnitler, head of shipbuilding at the Norwegian company.

Kvaerner claimed its competitive position would be enhanced because the average subsidy for its yards – six in Norway, two in Finland, Govan in Scotland and Warnow Werft at Rostock in Germany – was already considerably lower than many competitors.

The Finnish yards, for example, in effect get no subsidies. However, the new regime could make the going tougher for Kvaerner's Govan yard, which has traditionally benefited from high subsidies.

The group also said it believed the OECD accord would enhance prospects for stability in the notoriously volatile shipping markets, because generous subsidy levels would no longer entice shipowners to order new vessels in the face of adverse markets.

There were contrasting views on what the agreement would mean for the US shipbuilding industry, which has been trying to reduce its dependence on defence work but has found it difficult to match subsidised prices offered by rival commercial yards.

Mr Quarrell said the US shipbuilders had over-estimated the effect of subsidies on the market, but under-estimated the productivity gap between themselves and the world market level. So the removal of subsidies would not provide the US with a cure-all.

But Mr Stocker believed the deal at last gave US shipbuilders – which had not received subsidies for the past 10 years – the opportunity to enter a market which is forecast to improve "fairly dramatically" over the next five years.

He contended that the agreement would radically shift the industry away from the Japanese shipbuilders which, with the added problem of a strong yen, would find it hard to keep making ships.

But the view from Tokyo is different. The deal was expected to work in Japan's favour, as direct subsidies to the Japanese shipbuilding industry were virtually non-existent, a transport ministry official noted.

At the same time, the anti-dumping code – together with specification of what constitutes dumping – is looked upon favourably in Japan as a measure that will help to prevent severe pressure on Japanese shipbuilders to reduce prices during recessions.

However, the view is that the agreement would not necessarily act to the disadvantage of Japanese industry alone, since other countries also provide huge indirect subsidies, but would help to make the market fairer.

The relaxed reception of the OECD agreement reflects the confidence felt in the competitiveness of Japan's shipbuilding industry. In the first six months of this year, the industry managed to increase orders by more than two-fold to 130 vessels. *Additional reporting by Christopher Brown-Humes and Michiyo Nakamoto*

Japanese orders at four-year high

Foreign ship orders received by Japanese shipbuilders during the first six months of 1994 rose to 5.2m gross registered tonnes (grt), a level attained for the first time in four years, Reuter reports from Tokyo.

"The major reason was the mass order of nine very large crude carriers (VLCC) in that half of the year," a spokesman for the Japan Ship Exporters' Association said.

A large part of those orders was for the Saudi Arabian National Shipping company's orders for five double-hulled VLCCs, signed with Mitsubishi Heavy Industries.

The last time Japan's ship orders for a first half were at this level was in 1990, when 5.5m grt of orders were reported, the association spokesman said. Total orders for all of calendar 1990 stood at 8.6m.

However, orders for June were down from May, at 635,586 grt. May registered the largest increase this year when orders peaked at 1,649,910 grt.

Japan produces about 40 per cent of the world's ships and there are virtually no direct subsidies to the Japanese shipbuilding industry.

Even so, Japan provides indirect subsidies in the form of loans to shipowners through the Japan Development Bank. In fiscal 1992, such loans totalled Y53.3bn, according to the transport ministry.

European groups win dam contracts

Impregilo of Italy, Züblin of Germany and Dumez of France have won contracts worth Yn7.3bn (£541m) for a dam project on China's Yellow river, agencies report.

The Xiaolangdi water control project contracts for the main body, the flood-discharge structure and hydroelectric structure were awarded to a Yellow River joint venture. This comprises the three European groups and the Xiaolangdi joint venture.

The dam site is 40km north of Luoyang city in Henan province. China has borrowed $570m (£375m) from the World Bank, including $460m for construction and $110m as a soft loan to resettle thousands of residents. In total China plans to borrow about $1bn from the World Bank.

Taipei unveils parts deal for F-16

Taiwan will begin production this year of parts for US F-16 fighters under a $40m contract with Lockheed, with more contracts expected to follow, Reuter reports from Taipei.

The US government had for the first time approved technology transfers by Lockheed for eight different parts for the F-16, said Mr Jack Tang, deputy director of the cabinet's Committee for Aviation and Space Industry Development.

Software pirates jailed in Taiwan

Authorities in Taiwan have sentenced convicted software pirates to jail for the first time, the industry watchdog Business Software Alliance said, agencies report from Hong Kong.

Three computer dealers have been sentenced to 14 months by the Taiwan High Court after losing their appeal for selling illegal software. A fourth defendant received a seven-month sentence.

Taiwan's software was more than 80 per cent pirated at a cost of $600m a year to software firms, the Alliance said.

Honda to export from Canada

Honda has begun exporting Canadian-made Civic cars to Latin America and Asia, Reuter reports from Tokyo. Honda of Canada in Alliston, Ontario, will export 350 Civics to Brazil and 650 to Taiwan in the year to March 1995, the company said.

This is the first time Honda of Canada will export to markets outside North America. The company produces 100,000 Civics per year, of which 80,000 are exported to the US.

INTERNATIONAL ECONOMIC INDICATORS: **PRICES AND COMPETITIVENESS**

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

UNITED STATES

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.6	102.2	99.4	85.0
1987	105.6	100.7	103.8	98.7	76.2
1988	109.9	103.2	108.9	99.1	71.0
1989	115.2	108.5	110.0	101.1	74.9
1990	121.5	113.9	113.6	104.3	73.4
1991	126.6	116.3	117.3	107.8	74.2
1992	130.4	117.7	120.1	108.1	74.2
1993	134.3	119.2	123.4	105.5	76.6
3rd qtr.1993	2.8	0.7	2.5	−2.6	76.2
4th qtr.1993	2.7	0.3	3.0	−3.0	76.7
1st qtr.1994	2.5	0.2	3.0	−1.7	77.1
2nd qtr.1994	2.4	−0.3			75.8
July 1993	2.8	1.3	2.5	−2.5	77.3
August	2.8	0.5	2.5	−2.6	75.8
September	2.7	0.4	2.5	−2.7	75.4
October	2.8	0.2	3.3	−2.9	75.9
November	2.7	0.4	2.5	−2.2	77.0
December	2.8	0.2	3.3	−3.8	77.3
January 1994	2.5	0.2	2.5	−1.9	77.8
February	2.5	0.2	3.3	−1.8	77.0
March	2.5	0.2	3.3	−1.6	76.5
April	2.4	−0.4	2.4	−2.0	76.4
May	2.3	−0.4	2.4	−2.4	75.8
June	2.5	0.0			75.1

JAPAN

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	100.6	95.3	101.4	103.4	118.4
1987	101.2	92.5	103.1	100.6	122.6
1988	102.2	92.3	107.8	96.2	131.0
1989	104.9	94.2	114.0	96.1	123.5
1990	108.2	95.7	120.1	98.3	108.3
1991	111.8	96.8	124.2	101.8	114.7
1992	113.9	95.8	125.6	111.0	116.5
1993	115.3	94.3	125.6	116.8	134.0
3rd qtr.1993	1.8	−1.6	0.4	4.4	140.7
4th qtr.1993	1.2	−2.1	−0.1	5.1	137.8
1st qtr.1994	1.4	−2.2	2.9	4.3	137.8
2nd qtr.1994	0.8				140.0
July 1993	1.6	−1.7	−1.2	5.4	138.7
August	2.0	−1.8	2.3	2.6	144.0
September	1.5	−2.0	1.5	5.4	139.8
October	1.2	−2.1	0.8	7.8	138.5
November	0.6	−2.1	1.7	3.4	138.7
December	1.3	−2.2	−1.1	4.2	135.9
January 1994	1.4	−2.1	4.5	4.2	134.5
February	1.4	−2.2	1.7	6.1	139.4
March	1.3	−2.3	2.4	3.5	139.4
April	0.8	−2.2	1.9		141.4
May	0.8	−2.0			139.2
June	0.5				139.3

GERMANY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	99.9	97.5	103.8	103.8	107.4
1987	100.1	95.0	108.0	107.1	110.9
1988	101.4	96.2	113.0	106.9	110.0
1989	104.2	99.3	117.3	108.0	107.8
1990	107.0	101.0	123.8	110.3	110.7
1991	110.7	103.4	131.6	115.0	108.1
1992	115.1	104.9	138.6	121.5	108.6
1993	119.8	104.8		125.9	110.2
3rd qtr.1993	4.2	−0.2	n.a.	1.8	109.6
4th qtr.1993	3.7	−0.2	n.a.	−1.7	109.9
1st qtr.1994	3.3	0.2	n.a.	−2.7	107.1
2nd qtr.1994	3.0		n.a.		107.5
July 1993	4.3	−0.2		3.2	108.2
August	4.2	−0.2		0.0	109.6
September	4.0	−0.3		1.8	111.2
October	3.9	−0.2		0.2	111.1
November	3.6	−0.2		−2.3	109.6
December	3.7	−0.1		−2.9	109.0
January 1994	3.6	0.0		−0.5	107.2
February	3.4	0.2		−5.0	108.6
March	3.2	0.3		−2.6	107.5
April	3.1	0.1			106.9
May	3.0	0.4			107.6
June	3.0				108.1

FRANCE

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	102.5	97.2	104.5	101.5	103.4
1987	105.8	97.8	107.8	103.0	104.8
1988	108.5	102.8	111.1	104.0	102.2
1989	112.6	106.4	115.4	105.3	99.8
1990	116.5	107.1	120.8	109.5	103.6
1991	120.2	105.8	125.8	113.6	102.2
1992	123.1	104.0	130.3	115.8	105.8
1993	125.6	101.1	133.7		106.5
3rd qtr.1993	2.2	−3.4	n.a.		106.5
4th qtr.1993	2.1	−2.2	n.a.		107.7
1st qtr.1994	1.7	−1.5	n.a.		107.5
2nd qtr.1994	1.7		n.a.		107.3
July 1993	2.1	n.a.	–	n.a.	106.7
August	2.2	n.a.	–	n.a.	105.4
September	2.3	n.a.	2.3	n.a.	107.5
October	2.2	n.a.	–	n.a.	107.4
November	2.2	n.a.	–	n.a.	107.0
December	2.1	n.a.	2.2	n.a.	108.5
January 1994	1.9	n.a.	–	n.a.	107.5
February	1.8	n.a.	–	n.a.	106.8
March	1.5	n.a.	2.0	n.a.	107.9
April	1.7	n.a.	–	n.a.	106.5
May	1.8	n.a.	–	n.a.	107.3
June	1.6	n.a.		n.a.	108.1

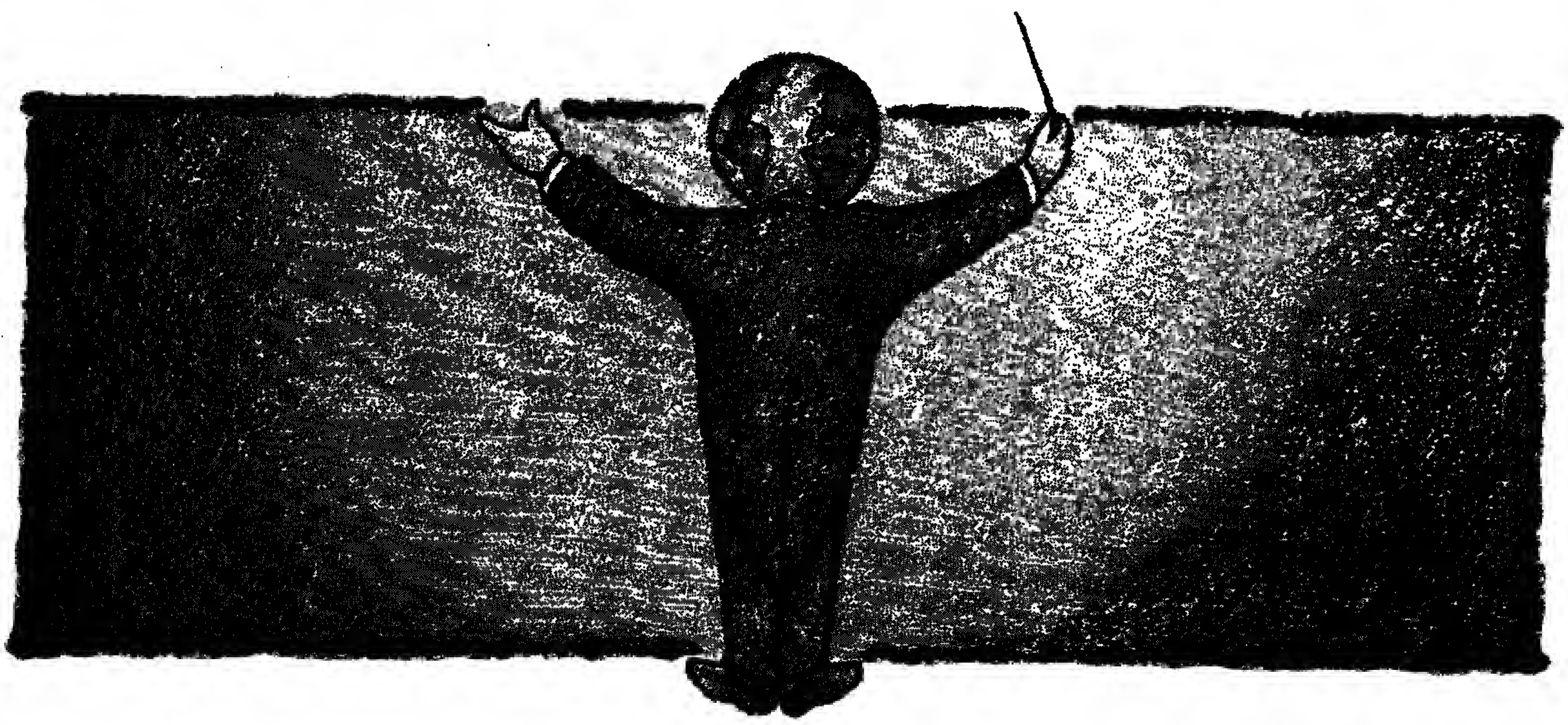
ITALY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	106.1	100.2	104.8	102.7	101.3
1987	111.0	103.2	111.8	105.6	102.0
1988	116.5	106.8	118.4	109.7	100.2
1989	124.2	113.1	125.6	112.3	103.6
1990	131.8	117.8	134.7	118.8	108.2
1991	140.3	121.7	147.8	131.3	105.5
1992	147.7	124.0	155.8	136.8	101.9
1993	153.9	128.7	161.2	139.4	87.8
3rd qtr.1993	4.3	4.3	4.1	2.1	87.9
4th qtr.1993	4.1	3.9	3.8	−1.4	85.7
1st qtr.1994	4.2	3.5	4.2		85.1
2nd qtr.1994	4.0				87.3
July 1993	4.4	4.2	4.1	n.a.	88.7
August	4.4	4.4	4.1	n.a.	87.9
September	4.2	4.3	4.2	n.a.	87.0
October	4.3	4.1	3.9	n.a.	86.6
November	4.2	3.9	3.9	n.a.	85.6
December	4.0	3.7	3.6	n.a.	84.7
January 1994	4.2	3.5	4.0	n.a.	85.2
February	4.2	3.6	4.3	n.a.	85.5
March	4.2	3.2	4.5	n.a.	84.9
April	4.1	3.0	4.6	n.a.	87.4
May	4.0			n.a.	87.7
June	3.7			n.a.	86.5

UNITED KINGDOM

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	103.4	101.4	107.7	104.1	94.2
1987	107.7	104.9	116.3	106.6	94.6
1988	113.0	108.7	126.2	109.5	102.3
1989	121.8	113.8	137.2	114.4	101.3
1990	133.3	121.0	150.1	122.7	102.8
1991	141.2	127.5	162.4	131.3	106.5
1992	146.4	131.5	173.1	134.0	103.5
1993	148.7	136.7	180.9	134.5	95.7
3rd qtr.1993	1.6	4.3	4.4	1.3	97.1
4th qtr.1993	1.5	3.9	3.9	1.7	97.1
1st qtr.1994	2.4	3.3	4.8	2.0	98.5
2nd qtr.1994	2.8	2.1			96.8
July 1993	1.4	4.2	5.0	1.0	97.4
August	1.7	4.3	3.6	1.1	97.2
September	1.8	4.3	4.5	1.8	96.6
October	1.4	4.0	3.8	2.2	98.2
November	1.4	3.6	4.0	1.9	97.1
December	1.8	4.0	4.0	1.1	97.9
January 1994	2.5	3.7	4.8	1.8	99.8
February	2.4	3.4	4.4	1.8	98.2
March	2.3	2.8	5.3	2.6	97.5
April	2.8	2.2	4.7	0.9	98.9
May	2.5	2.1	4.0	1.7	96.7
June	2.6	2.0			96.8

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 15 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.



Irish government annoyed by Sir Patrick Mayhew's comments over territorial claim

London and Dublin clash on Ulster

By Tim Coone in Dublin

Sharp differences have emerged between the British and Irish governments over whether the Irish Republic's territorial claim to Northern Ireland is now the key obstacle to the stalled Northern Ireland peace process.

The Irish government has responded with annoyance to an interview published yesterday in a British newspaper by Sir Patrick Mayhew, the Northern Ireland secretary, in which he emphasised that the Republic's territorial claim to the province was now the central issue to be resolved in drafting a joint "framework document" designed to encourage Northern Ireland's political parties to return to the negotiating table.

An Irish government spokesman emphasised that any new constitutional arrangement for the province must be "balanced". He said "What we are seeking is a balanced constitutional accommodation as expressed in the (Downing Street) declaration, not some constitutional one-way street".

Last Friday in Brussels, the Mr John Major and Mr Albert Reynolds, the British and Irish prime ministers respectively, agreed to postpone a planned July summit on Northern Ireland until the autumn to allow themselves more time to resolve their differences in drafting the document.

Mr Dick Spring, the Irish foreign minister said yesterday he was "surprised" at the comments attributed to Sir Patrick, and that he did not agree that the Republic's territorial claim was now the central issue.

He said a "number of issues remain to be resolved, and all of those will have to be resolved together. I don't think it is helpful to highlight one aspect of negotiations.. there is little point in solving problems on one side if you leave more problems on the other side". He said "a far wider" solution is needed.

Dublin has repeatedly emphasised that the 1920 Government of Ireland Act, which establishes Westminster rule over Northern Ireland, should be modified as a "quid-pro-quo" for modifying the Republic's territorial claim.

Mr Dermot Ahern, the Fianna Fail co-chairman of the Anglo-Irish joint parliamentary body, yesterday accused Sir Patrick of trying to "cherry-pick" aspects of last December's Downing Street declaration.

Sinn Féin, the political wing of the IRA, announced that its special delegate conference, at which a formal response to the declaration will be decided, will be held on Sunday.

British Gas plans cut price incentive

By Robert Corzine and David Lascelles

British Gas intends to cut prices to its best residential customers during the run-up to the introduction of competition in 1996 in a move which could also result in higher charges for millions of other households.

The price differentials between customers are likely to emerge as the company lifts cross-subsidies. British Gas claims that 2m-3m of its most profitable domestic customers subsidise much larger numbers of problem payers and those who use relatively small amounts of gas.

It is thought that 5m customers might benefit from lower prices, but as many as 8m households could be hit by increases.

Company officials say the "re-balancing" of costs might occur abruptly if the government sticks to the present timetable for ending its monopoly over the sale of gas to 18m households beginning in 1996, with full liberalisation due in 1998.

A six-12 month delay in the first phase of competition, which British Gas has proposed in order to ensure that its computer systems have been upgraded and tested prior to deregulation, would enable it to introduce price changes more gradually, officials said.

It might also be able to offer packages to induce a change in behaviour among the 2m-a-year late or non-paying customers. These could include incentives for customers to pay by direct debit.

Officials say the late payment problem is so large because disconnection procedures are cumbersome. They say that gas bills get paid last, after electricity.

The company yesterday said it was committed to competition, and wants to see the necessary legislation included in the Queen's Speech this autumn. But it also wants to ensure that the re-balancing of its cost base is completed before its monopoly is lifted.

Ofgas, the gas industry regulator, yesterday said a re-balancing of costs between consumers would require its approval. It would also have to take place within the complex pricing formula set by the regulator – a cap based on the retail price index minus 4 percentage points.

But the regulator confirmed that British Gas has a right to raise prices for different market segments if it can show that it is not recovering the costs of serving such customers.

British Gas executives say they have little faith in Ofgas' ability to prevent independent gas marketers from targeting its best customers, while avoiding the millions of small customers or problem payers presently unprofitable.

Treasury on course to cut public borrowing to £36.1bn

By Peter Norman, Economics Editor

The government's budget deficit fell to a lower than expected £2.86bn in June from £4.3bn in May, indicating that the Treasury is well on course to achieve its recently set target of £36.1bn for the public sector borrowing requirement (PSBR) in the financial year to the end of March 1995.

The Treasury and Central Statistical Office reported yesterday that the PSBR fell to £11.4bn in the three months to the end of June from £13.4bn in the first three months of the 1993-94 financial year.

Yesterday's figures had no impact on financial markets. But economists were impressed. Mr Michael Saunders, UK economist for Salomon Brothers International, said that the scale of improvement in the fiscal deficit is likely to be sustained over the rest of 1994-1995. "Assuming that the November Budget does not shift the fiscal stance, the PSBR could be down to £25bn or 3.5 per cent of GDP in 1995-96" compared with £45.9bn in 1993-94, he said. This would be "among the smallest deficits in the European Union".

Excluding last month's privatisation proceeds of £180m from the sale of Northern Ireland Electricity shares, the PSBR in June was £3.04bn. Without privatisation income, the deficit shrank by £3bn to £11.9bn in the three months to the end of June from £14.9bn in the same period of last year.

The June deficit was markedly lower than the £3.7bn consensus forecast. The Treasury said early tax payments by the self-employed ahead of a July 1 deadline boosted government revenues. Income tax receipts jumped to £5.53bn in June from £4.18bn in May and £4.8bn in June last year.

The overall improvement in the government's finances so far this year reflects relatively strong revenue growth and only a small rise in government outlays.

Cash receipts were £17.1bn in June and £50.5bn in the first three months of 1994-95 to show a 4.3 per cent rise compared with £48.4bn in the same period last year.

Inland revenue receipts, at £17.3bn in the quarter, were up 9 per cent compared with the same three months a year ago, while customs and excise receipts advanced by 7 per cent to £17.1bn.

Cash outlays were £20.6bn in June and £62.4bn in the first three months of the financial year, up 1.6 per cent on spending of £61.4bn in the equivalent period of 1993-94. However, these were boosted by higher interest payments and lower privatisation proceeds, which count as negative expenditure. Not departmental outlays in the three months fell 1.5 per cent compared with a year ago.

Retailers look to build on year's best sales

British retailers achieved their best sales so far this year in June and are looking for further robust sales growth this month compared with a year ago, the Confederation of British Industry reported, *Peter Norman writes*.

The latest distributive trades survey from the employers' organisation, suggested that April's tax increases have yet to make a significant adverse impact on consumer spending.

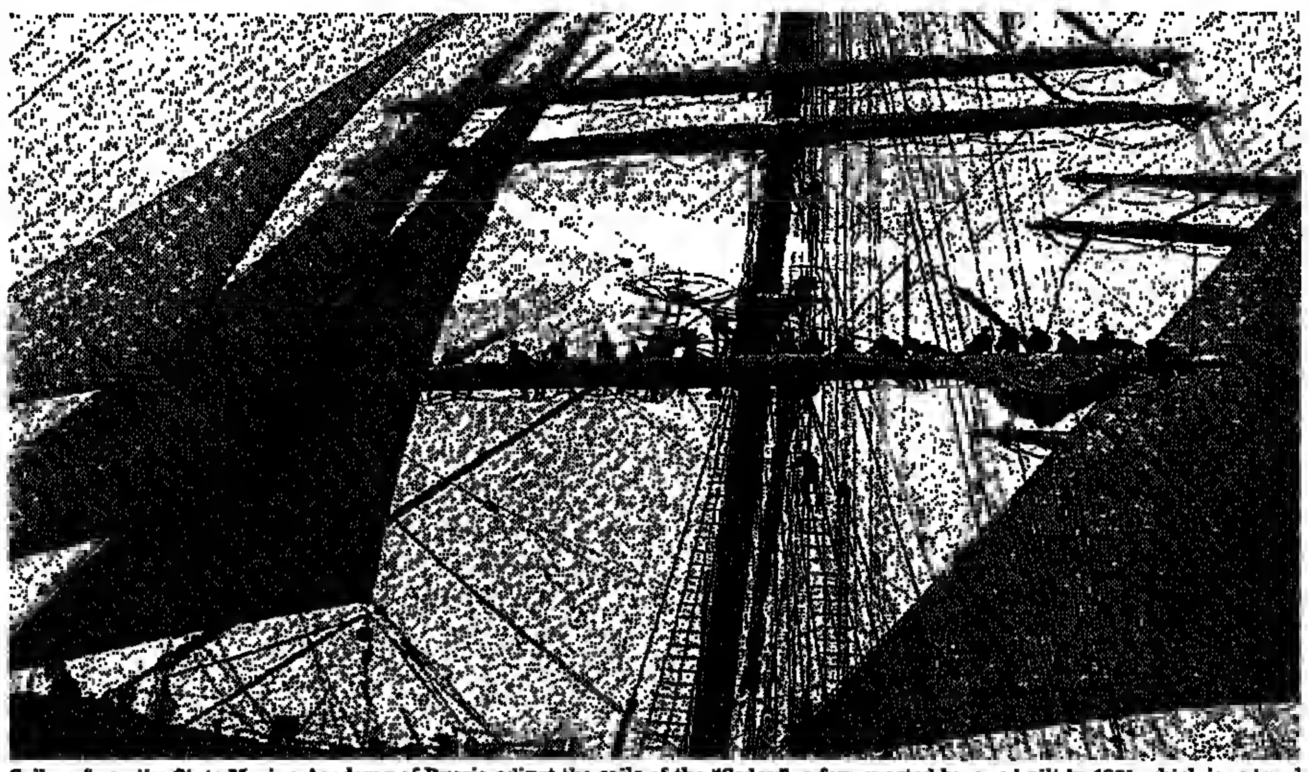
The survey of 502 retailers, wholesalers and motor traders between June 14 and July 6 found that retail sales volumes bounced back from a disappointing performance in May and increased more than expected last month compared with June last year.

Of the 302 retailers polled, 48 per cent said sales were up compared with a year ago, 21 per cent said they were down and about 30 per cent said they were unchanged.

The resulting balance, which the CBI considers a good guide to the trend of sales, was a positive 27 per cent compared with 12 per cent in May, and the highest since December last year when on balance 34 per cent of retailers said sales had risen.

In the previous survey, a balance of 22 per cent of retailers said they expected sales to rise in June. Only motor traders appeared to experience less than buoyant trading conditions last month.

Elsewhere, a balance of 64 per cent of wholesalers reported sales up on a year.



Sailors from the State Marine Academy of Russia adjust the sails of the "Sedov", a four-masted barque built in 1921 which is entered for the Tall Ships race. The race begins in Weymouth on Britain's south coast tomorrow Reuter

Britain in brief

Hardboard factory for south Wales

A £40m hardboard factory is to be built in south Wales in the largest UK manufacturing start-up yet to be backed by venture capital.

Tech-Board, the new company, will make the first hardboard in Britain for five years, since the closure of UK Paper's elderly factory at Kemsley, Kent. The new plant is expected to create 200 jobs and will use home-grown wood.

With a capacity of 88,000 tonnes per year, the factory could meet about half of the UK's current requirements for hardboard, which is principally used in the furniture, automotive and building trades. The company also intends to export to continental Europe.

Mr Malcolm Graham, the general manager of UK Paper's hardboard division, spent at least five years since the Kemsley plant closed putting together the financing package that was agreed yesterday.

A syndicate of UK and international banks and venture capital houses includes 3i which will be represented on the board.

The Welsh Office is providing a £3.4m grant and additional finance comes from Gwent county council and £250,000 of loan and equity from British Coal Enterprise, the corporation's job creation arm. The 12-acre factory site is reclaimed mining land on an industrial estate near Ebbw Vale. Male unemployment in the area is 20 per cent.

Ulster cable plan refloated

The Independent Television Commission is planning to try again to bring cable television to Northern Ireland more than 10 years after the first experimental licence was awarded.

The ITC is expected to advertise a licence, or licences, in the autumn and has not ruled out the possibility of advertising a single licence covering all of Northern Ireland and not just Belfast and its surrounding area.

If a single licence is advertised covering the more than 500,000 homes in the province it would be one of the largest cable television franchises in the UK on a par with other major franchises such as the West Midlands.

Protests stop Brontë project

Plans to erect wind turbines in the heart of the moors made famous by the books and poems of the Brontë family country have been dropped.

Nine were planned for Haworth Moor - setting of Emily Brontë classic Wuthering Heights and where she often played with her sisters and brother.

But after objections flooded in from as far afield as America and Japan, councillors in Bradford, West Yorks, rejected the proposals.

The government announced plans to restore the skyline of Westminster to its Victorian glory by demolishing three 21-storey ministerial buildings which stand behind parliament PA

Thabo Mbeki to visit London

South Africa's deputy president Thabo Mbeki is to visit London on Wednesday and Thursday. He will meet John Major and lunch with the Queen, according to the Foreign Office.

Pupils 'lose day a week'

Some pupils lose the equivalent of one day per week in the classroom because of variations in the length of the school day, according to school inspectors.

They found the total time spent in school varied by 4.1 hours per week in primary schools and by eight hours in secondary schools, according to a report by the Office for Standards in Education. Recommended taught school weeks are 21 hours for five to seven-year-olds, 23.5 hours for those aged eight to 11 and 24 hours for secondary school pupils.

Company code for Exchange

The London Stock Exchange unveiled new rules designed to make it easier for small companies which have been listed on its Unlisted Securities Market to obtain a full Stock Exchange listing.

The new rules are necessary because the USM is slated to close at the end of 1996 and will not accept any new companies from the end of this year. The decision to close the USM followed the recession in the early 1990's during which trading in the smallest companies came almost to a standstill. The Exchange agreed in early 1993 that the USM was not a viable mechanism to ensure investment in smaller companies. Earlier this year, the Exchange announced a seven-point plan to encourage interest in small companies but rejected a call from one of its own advisory panels for an independent small companies exchange.

Motorway toll plan still on

Mr Stephen Dorrell, chief secretary to the Treasury, told a select parliamentary committee on transport that the government definitely intended to proceed with direct charging for motorway use, probably through electronic pricing.

However, he could not put a date on when charging would come into effect or how much it could be expected to raise.

He told the committee, which was chaired by Mr Paul Channon, the former Conservative transport secretary, that the charges would be in addition and separate from existing taxes. He said the hope was the charges would be ring-fenced and spent on motorways.

A government discussion paper earlier this year issued by Mr John MacGregor, the minister for transport, said that direct charging for motorways could raise £1bn a year although this would depend on the level of tariffs.

Mr Ian Wilson, a Treasury official, also speaking to the committee, said that taxes on transport raised £22.4bn a year, including VAT on fuel and road tax. This was far in excess of the money spent on motorways alone but the £22.4bn went into an integrated budget.

Asda pledge in price war

Asda, the UK's fourth-largest grocery retailer, is stepping up the supermarket price war with a new promise to refund the difference on a basket of goods if customers can buy the same goods more cheaply. The pricing initiative will be backed by a national advertising campaign.

Government backing for use of teleworking

By David Goodhart, Labour Editor

The British government yesterday gave its most enthusiastic endorsement to date of teleworking – using information technology to work from home – and promised to review any regulations and restrictions which prevent its growth.

Mr David Hunt, the employment secretary, said: "We need to know of any areas where legislation or its interpretation is creating special difficulties for telework so that we can deal with them".

He also revealed that Whitehall has established a Teleworking Special Interest Group to serve as a contact point for all with interests in the subject.

Mr Hunt, who was speaking at a seminar organised by the Social Market Foundation and 3Com the US telecommunications company, said that a recent Department of Employment survey found that one in 20 British companies employ teleworkers.

The Henley Centre for Forecasting has estimated that there will be 3.3m teleworkers in Britain by next year, or about 4.6 per cent of the workforce, and some estimates say that 10-15 per cent of the workforce in many developed countries will be teleworking to some degree by the end of the century.

Mr Hunt said: "Teleworking can have great benefits but it can also have pitfalls. We need to learn from experience, so the pitfalls can be identified and avoided."

Mr Hunt said that the employment department survey found a high level of satisfaction among teleworking managers, with over three quarters "very satisfied" with their present teleworking arrangements.

The main reasons they gave for this, according to Mr Hunt, were higher productivity, higher reliability and work quality, high staff loyalty and lower staff turnover.

Ms Janice Roberts, vice-president of 3Com, speaking at the same conference, said that studies in California had found that teleworking increased productivity by between 15 and 20 per cent. She also said that if it was necessary to mix working from home with coming into an office, the best balance is usually three days at home and two days in the office.

Building society bars sales staff pending training

By Alison Smith

Nationwide Building Society, the UK's second largest, yesterday barred its 1,300 authorised financial services staff from giving advice in this area until a re-training programme has been completed.

The ban will affect staff at around two-thirds of the society's 1,000 outlets. Nationwide is planning to launch its own life insurance and unit trust subsidiaries next year, but currently acts as an agent for Guardian Financial Services, part of Guardian Royal Exchange.

The move follows a routine inspection visit by Lautro, the life insurance industry's regulator, to Guardian Financial Services and its agents.

On the day that Lautro took a further step towards extinction as the Personal Investment Authority – the new watchdog for the personal investor – became operational, the announcement was a reminder that the existing regulator had been growing in effectiveness.

Nationwide said yesterday that the Lautro visit had revealed some shortcomings in its supervision of financial services staff, and that it was taking the opportunity to enhance training more generally.

Mr Brian Davis, chief executive designate, said Nationwide's action had been taken voluntarily, and was a sign of its commitment to high standards of service.

In March, Norwich Union, one of the UK's largest insurers, suspended its entire life and pensions sales force for a month after Lautro identified breakdowns in management controls.

The 650 or so Nationwide staff dedicated entirely to financial services products will go through an intensive training programme, and the first groups to go through this process will be able to offer advice again from early August. The full process is expected to take eight to nine weeks.

Plans for the remaining authorised staff, such as branch managers, have not yet been finalised, but it is possible that the numbers who are authorised will be reduced.

Mr Davis said he did not believe that Nationwide had misled any of its financial services customers, but that any customer who was concerned should contact the society.

Review aims to build constructive relationship

Andrew Taylor on plans to overhaul Britain's building practices

Wide-ranging proposals to reduce contract abuses and improve services could cut construction costs in Britain by 30 per cent by the end of the century, according to a radical review of the industry published yesterday.

The independent review sponsored by the industry and government called for new legislation to improve payment and and disputes procedures.

A Construction Contracts Bill would require independent adjudicators to be appointed to resolve conflicts reducing the need for costly litigation. Trust funds would hold contract cash to protect companies should customers or contractors fail.

The bill also would allow sub-contractors to charge punitive interest for late payments. The measures would be expected to become standard features of all construction contracts.

The Environment Department, which is thought to strongly support the recommendations, is due to publish its response next week. The review, led by Sir Michael Latham, a former Conservative MP and ex-director of the Housebuilders Federation, was the biggest inquiry into the industry since the Branwell report in 1964.

It calls for the formation of a powerful new industry steering group – led by the environment secretary – which would assist in the development of new contract forms and management practices.

A new code of practice to be sponsored by the environment department would act as a guide to private and public sector customers astablishing a well defined framework of management and contractual responsibilities for a wida range of jobs.

A plan to establish a new agency to oversee the implementation of the proposals, similar to the Australian Construction Industry Development Association, could be considered, says the report.

The Australian agency which has representatives from the government, industry, building owners and occupiers and unions, has set a similar cost-reduction target from improved efficiencies.

The almost universal praise with which the construction industry and its customers greeted the Latham Review indicates broad support for its proposals.

The cost of building an office block is estimated to be 30 per cent higher in the UK than in the US. Repeated arguments between different parts of the UK industry, over whose fault this is, reflected the atmosphere of conflict.

It was in a bid to encourage a less adversarial climate that the independent review of construction management and practices, the first for 30 years, was sponsored by the industry and the Environment Department last year.

The department is expected to play a central role in developing new contract forms and codes of practice intended for adoption by public and private-sector purchasers.

Legislation would be supported by a new code of practice, backed by construction employers and customers and sponsored by the Environment Department. Its aim would be to promote closer co-operation between various construction disciplines and to provide a checklist of management responsibilities which could be incorporated into contracts.

Public bodies would be encouraged to introduce more efficient tendering procedures. Companies and consultants would be required to complete a single form to qualify for public-sector contracts. If accepted they would be placed on a national register of approved companies. A star system based on performance might be incorporated, said Sir Michael.

The move would bring Britain into line with continental European countries which require companies to be registered with an EU approved body before they can tender for work. Companies appearing on registers would pay a small levy to pay for the cost.

The target of the review says Sir Michael is to reduce construction costs by 30 per cent and end the climate of mistrust in the industry.

TECHNOLOGY

Japan's People World

Saburo Goto hopes that in a few years' time it will become second nature for many of his fellow Japanese – at home and abroad – to use personal computers for buying goods, ordering services such as restaurant tables and even finding out about medical care.

In a country where PC use is far lower than in much of the west – Japan has only a third as many PCs per head as the US, though ownership is rising steadily – the race to link homes and businesses to a variety of electronic and multimedia-based services is speeding up.

As head of IBM Japan Services Business Company, Goto is involved with the US group's attempt to penetrate the still small local market for PC-based network services, using locally-developed software to cope with the complex Japanese language. With Mitsubishi Corporation, Hitachi and Toshiba, it has set up People World to encourage greater private use of PCs in Japan.

The system will be easy to use, says Goto. "It is not necessarily aimed at professional people but also at housewives and older people." It will compete with PC-Van (run by NEC, the Japanese electronics group) and NiftyServe (run by an affiliate of Fujitsu computers).

By 1999, IBM hopes to have more than 1.5m users of People World. The other services now have about 1.3m between them. People World is working with such providers of content as *Hanako*, a women's leisure magazine which will offer shopping information about sales and promotions in the Tokyo area.

"That kind of information is very important to improve the standard of living" believes Goto. "But equally important is medical information – the older we get, the more we need special services. Since Japanese hospitals are closed at weekends – except for emergencies – People World will also tell users where to turn to for their unexpected healthcare needs.

Andrew Fisher

Dial M for meters

Jane Martinson reports on a trial scheme to measure water and energy consumption by telephone

Calling for water: Doncaster residents will be the first to use the new meter system

From the beginning of next year, telephones in the office and in the home could be leaking information about our lives as we sleep.

The information they will relay is likely to concern our energy consumption and how much water we use, and the callers they will be "talking to" will be the utilities that bill customers for these services.

Up to 150 residents in Doncaster, in the north of England, are taking part in a trial in which their telephones are used to read their electricity and water meters. The trial, which runs until the end of the year, is a joint project between Yorkshire Water, Yorkshire Electricity, British Telecommunications and Schlumberger Industries.

The latter supplies the meter interface unit (MIU) which converts the data from the meters to a central database via the telephone network. A subscriber line access controller (Slac) calls the MIU when instructed by the companies' computers to read the meters. Four ports on the MIU enable four different meters to be read. The Yorkshire trial is using just two.

The trial uses technology developed by BT which enables the telephone lines to convey data without ringing. The aim is to leave customers blissfully unaware that their telephone lines are involved in any activity. If a customer uses the telephone while the meter is being read, the call from the utility will automatically end. No call from an electricity company will delay a call for an ambulance, for example.

The introduction of the no-ring facility, which negates the usual ringing current of normal calls, has required a big investment by BT and involved large-scale infrastructure changes. The costs of installation have been kept down because the facility has been installed at the same time as other BT developments, such as being able to identify a caller. Changes both to the telephone exchanges and the software used in digital exchanges have been implemented.

BT plans to install this "no-ring" facility on most of its 25m lines before the start of next year when it will be available for commercial use. Future applications could include equipment monitoring and control for photocopying machines and a "home automation" system whereby heating, lighting and security can be checked automatically.

But, says Andrew Batchelor, services development manager at BT: "We are focusing on the utility sector as our first market. This is because the utilities have a more pressing requirement to have some technology available to help them out of a commercial difficulty."

This "pressing requirement" felt by the water and electricity industries is the need to cut costs before forthcoming large-scale reviews by industry regulators. Both reviews will consider pricing controls and will take into account the companies' ability to cut costs and improve efficiency.

The onus after the reviews will be on both industries to prove to investors that they can still increase dividends based, among other things, on continuing to cut costs.

The Yorkshire trial is one of a number involving utilities, particularly electricity companies, and automatic meter reading. Joint ventures such as the one in Yorkshire also point to a move towards multi-utilities with one company providing both electricity and water.

A few smaller multi-utilities in the US are testing the use of telecommunications for meter reading. But Peter Harrie, marketing manager at Schlumberger Industries, says the scale of the potential market in the UK – which has some of the biggest utilities in the world – makes the Yorkshire trial particularly exciting.

The City appears to be watching signs of such closer co-operation with great interest. Robert Miller-Bakewell, utilities analyst at NatWest Securities, predicts that there will be seven multi-function utilities in the UK by 1997. "We will see a move towards more multi-function utilities in the UK, perhaps along the lines of those in the US but probably bigger. One of the things driving this forward is the need to cut costs and eliminate the overlap."

Nigel Hawkins, analyst at Hoare Govett, also foresees closer co-operation at both operating and management levels. "In terms of billing, for example, telecoms must be in a pole position for utilities."

But there are still a number of questions concerning the cost-effectiveness of automatic metering. The meters used in this system are more expensive than traditional ones and costs will not come down until they are produced and used in bulk.

Most industry analysts accept that the "man in a van" system with an engineer making regular, if infrequent, readings will remain cost-effective until "special" reads need to be carried out. These include returns to homes where nobody was in or an address changes.

Having a qualified member of staff visiting premises has other advantages, although as Harrie says: "Some people find it difficult arranging a convenient time for their meter to be read and others don't like strange people coming into their homes anyway."

Proponents of the scheme argue that "added value services" should be added to any cost benefit analysis. For utilities' customers, improvements could include the elimination of estimated bills, immediate informed response on queries and complaints, and flexible tariffing and billing. The electricity industry already sells energy to big industrial users in 30-minute lots that could be accurately gauged with such advanced metering.

The system will also enable water companies to detect leaks more easily and to prepare load profiles of customers.

A shared billing system between the water and electricity companies could lead to shared information about bad-debt customers. In the Yorkshire trial, each utility has access only to its own meters but the possibility of utilities sharing information is likely to cause alarm.

"This is certainly a complex subject, which is why nobody is rushing into it and why we're having trials to see how customers react to having their phones used in this way," says Batchelor.

"We're taking this fairly slowly, although we have been impressed by the reaction so far," he adds.

Yorkshire Water is also tentative. "Our main aim is improving services. We are not doing this purely for the sake of new technology."

Technically Speaking

When IT fails to measure up

By Tom Foremski

"The value of information technology is rarely questioned by users these days. In schools and businesses, the belief is widespread that computers make classrooms more effective and offices more productive."

The uncomfortable fact that vast investments in computers have shown only modest or, in some cases, no productivity increases is often dismissed as an irritating measurement problem.

The US National Research Council said at the end of last year that US service companies spent at least $750bn (£493bn) on communications systems, computer hardware and software in the 1980s. During this period, their annual productivity gain was a mere 0.7 per cent. Many other studies also indicate that the correlation between IT spending and productivity increases is barely measurable.

The general reaction to such studies is that the data is wrong or has been misinterpreted; or there is serious mismanagement of IT. It is true that the economic data is often difficult to collect, but it should be difficult not to notice an impact on the economy from such a large investment.

This has become known as the productivity paradox, and there have been many attempts to analyse economic data in different ways to reveal the productivity that such large investments in computer technology must have made possible.

If it is difficult to discern what the broad benefits of IT are, how can the smaller issues be evaluated? How does a manager decide whether investing to upgrade a company's PC systems to faster computer models, or to install improved software, will be rewarded through greater productivity?

It is this lack of effective measurement of the benefits of investing in computer technology that forces many companies to make the equivalent of a leap in the dark when making significant investments in IT. One senior executive at a leading US bank describes the decision-making process as being based on a "gut feeling". It seems strange that a Fortune 100 corporation would make important business decisions by instinct but, lacking other measures, it may be as good as any other yardstick.

The computer industry rarely mentions the productivity paradox. Computer companies routinely talk about increases in productivity, but these claims are made within the context of the technology. A new word processor is described as performing more quickly or data from a large database as being retrievable in less time. These measures of productivity are reassuringly self-validating but do not address the larger question of how IT should be used to increase productivity.

Clearly, this question can be answered only by IT users. And the answer to the productivity paradox lies within itself. The paradox begins with the assumption that IT improves productivity and yet we do not see the results. Surely the answer is that IT is like any tool and its effectiveness is determined by the user.

Lester Thurow, the US economist, believes that many corporations have misapplied IT. They have made large investments in IT without fully understanding how that technology should be used within the organisation.

Many organisations allow departments to buy PCs and software with little control over which software packages are used and how those systems are applied. Thus employees find that computers allow them to do more work of different kinds. But there is often little or no distinction made as to whether that work should be done in the first place.

Unless IT is managed with discipline and serious rethinking by companies about how they operate, its effects on the bottom line will not only be negligible but may be harmful. Organisations which solve the productivity paradox by focusing on strong management and appropriate use of IT will gain competitive advantage and unleash the true power of computer technology.

MANAGEMENT: THE GROWING BUSINESS

Smaller companies may be about to get a shock when they fall within the scope of new environmental laws

Weighed under by green tape

Just as smaller companies might have thought the burden of red tape was to be lifted from their shoulders by a concerned government, the spectre of environmental legislation is looming large on the horizon.

Many larger companies are successfully implementing measures brought in by the 1990 Environmental Protection Act, in particular the concept of integrated pollution control (IPC) which covers air, water and waste emissions. But smaller companies have been less affected by the legislation. That is changing. Within the next 18 months, many more of them will fall within the orbit of environmental protection legislation.

All the signs are that managers of these companies are confused and frightened by the complexity of the rules and the cost of compliance. Whatever the merits of the legislation, it is introducing new areas of expertise that busy owner-managers must master.

Last year the Greater Manchester Business Innovation Centre set up Envirotech with local sponsors and funding from the Department of Trade and Industry and the European Union's Regional Development Fund to offer companies a free environmental audit. The uptake, though improving, has been disappointingly low, says business manager Adele Neale.

"For those companies that know about the legislation the reaction tends to be one of fear and 'what is it going to cost us?'," she says. "Many smaller companies are adopting a stick the head in the sand attitude."

This fear is not entirely surprising. Take the principle at the heart of the Act, which says companies must adopt the "best available techniques not entailing excessive cost" – a concept that labours under the clumsy acronym Batneec.

This principle is applied by Her Majesty's Inspectorate of Pollution when issuing companies with authorisations for certain prescribed industrial processes. Regulations in this area already cover most heavy industries such as mining, power supply and chemicals. Now the inspectorate is drawing up regulations and guidelines, which will be available next May, to include the industries not yet covered.

These include paper making, timber treatment, coatings and animal and vegetable matter processes. Many of the companies in these industries are small- and medium-sized enterprises (SMEs).

The trouble is that the guidelines, being drawn up after consultation with trade organisations, are necessarily vague. Batneec is site-specific, the inspectorate says. What is an "available technique" at one factory may not be available at another within the same industry. And what does "excessive cost" mean?

While the inspectorate accepts this definition is not clear, it says it is not trying to put companies out of business.

Many smaller companies are adopting a stick the head in the sand attitude

According to HMIP, smaller companies need not be too disconsolate. Inspectorate officials say the initial confusion in companies first covered by the IPC was fairly quickly resolved.

More generally, while larger industries were initially critical of the Act some of the hostility has subsided. "Our impression is that by and large big industry has done an excellent job in getting its act together from quite a low start," says Robin Bidwell, managing director of Environmental Resources Management, a consultancy.

Smaller companies are also increasingly likely to find themselves affected by waste management legislation. With some exceptions – in fact no fewer than 43 categories of exception – any company that keeps, treats or disposes of waste will need a licence. Many have already applied for licences. What may not be widely recognised by SMEs is that companies exempt from needing a licence must register that exemption by December or risk paying a fine of up to £5,000.

The welter of legislation has meant a growth market for consultancies. Some, such as ERM, say companies are beginning to realise that the environment need not be a threat but can save money.

And as the scope of Integrated Pollution Control has spread, so has interest in BS 7750, the environmental management equivalent of the BS 5750 quality standard. From April next year, companies will also be able to register under the EU's equivalent standard, the eco-management and audit system.

The question being raised, however, is why companies already inspected by the pollution inspectorate should go through the additional cost of seeking and maintaining BS 7750.

The DTI says there may be additional value in BS 7750. While IPC focuses on processes, BS 7750 is more concerned with ensuring an environmental management system is in place. What is more, the officials say, BS 7750 is better than its quality assurance cousin because it clearly encourages continuous improvement.

Nevertheless, the DTI stresses that accreditation is not a badge of quality or greenness, only a management tool to help achieve a corporate goal.

While the government may not yet have stopped the spread of environmental red tape, it is at least aware of the problem for SMEs. As one DTI official said. "In the SME sector there is probably a misunderstanding or lack of knowledge about legal requirements. There are no clear channels for communicating our intentions or planned changes."

The DTI and Department of the Environment plan to improve the way they communicate the impact of environmental legislation to smaller companies. Unless they are successful over the next six months or so, some companies are going to have a nasty shock.

RG

Juggling the finances

Arranging start-up funds was like being in a circus act for Tech-Board's chief executive, writes **Richard Gourlay**

The announcement yesterday that a venture capital-backed start-up will revitalise the UK's moribund hardboard industry should have been a cause for rejoicing.

The £40m project will be the biggest manufacturing start-up backed by institutions in the UK. The plant will create at least 200 jobs in Gwent, South Wales and should cut the UK trade deficit by substituting large quantities of imported hardboard.

But the story of how Malcolm Graham, chief executive of Tech-Board, and his advisers raised the equity and debt is not encouraging to entrepreneurs seeking start-up finance. When the deal was finally signed yesterday morning, more than six years had elapsed since Graham first sought backing.

During this time, he spent all his savings. He also learned what many others have learned – that with some exceptions venture capitalists and commercial banks are reluctant to back start-ups.

The venture capital industry is frequently criticised for this. But the brickbats are often ill-aimed. In the first place, many venture capitalists manage funds raised expressly for investment in management buy-outs – not start-ups. Asking them for start-up capital would be like asking a car insurance salesman to sell cars. Second, the industry has learned from bitter experience that many start-ups fail.

Graham points out that the Tech-Board project was different. "Most start-ups fail because there is no market," he says. "Here was a project with an established process and market, but it still did not get a good reception." This was in spite of the fact that the corporate finance department of KPMG and lawyers at Steggles Palmer said they would work for Graham on a contingency fee basis.

Graham had become general manager of UK Paper's hardboard division in 1986, just before its management led a buy-out from Bowater Industries. Its Kemsley plant in Kent was designed to produce 5,000 tonnes, but it was operating at three times this level and was falling down.

Yet this mill constituted the UK's hardboard manufacturing capacity. Not surprisingly, 90 per cent of the UK's 200,000-tonne annual demand was imported.

In 1987, Graham received board approval from UK Paper to build a new plant, but by 1988, when the company was floated and later acquired by Fletcher Challenge of New Zealand, the plan had been put on the back burner.

At this point, armed with little more than plans for a new plant, Graham decided to raise the money himself.

"I met 3i who told me I needed a finance director, a managing director and a complete management team if they were to support the deal," says Graham. "It was not an easy route to satisfy." He spent two years knocking on doors looking for equity backing. Then he met Peter Learmond, the former steel trader who in the early 1970s went through similar hoops to raise money to start Sheerness Steel, a mini-mill.

After three months – and another KPMG review of the business plan – Learmond said he would back the project and found an offshore investor, Persis, who put up £500,000 of interim funding. "What attracted me was that there were no other producers in the UK," says Learmond. "Every tonne is imported and costs money to transport. If we had a plant that could deliver on a just-in-time basis we would have a tremendous edge on imports."

With the backing of Persis, Graham headed back to his contacts at 3i – after they had been warmed up by KPMG. "Start-ups are extremely rare – nothing quite like this has ever been done before as an industrial start-up," says KPMG's Nick Theakston. "I went to 3i on my own so that they would not say no at the first mention of start-up."

By April 1992, with 3i on board, success seemed much more assured. But most other potential equity providers either wondered why no one else had set up a plant, could not believe the margins or wanted to buy into something that would generate an immediate yield.

As a result it took until July 1993 to agree the equity layer of the funding – £2m of pure equity and £13.5m of subordinated loan stock. Even then the consortium included a number of foreign investors – alongside 3i, Persis, Rothschild Ventures and RIT are Tinicum Inc of New York and Heffernan of Toronto, a group that backed Learmond's Sheerness Steel.

What Graham had not counted on, however, was the difficulty he would face raising £15m of debt.

As soon as the equity was in place, NatWest, which is also a substantial shareholder in 3i, withdrew its commitment to put a loan proposal to its credit committee. The bank says it was not fully informed of the progress towards raising equity and that its circumstances had changed.

Graham says the process of keeping the equity suppliers happy while it raised the debt was like keeping plates spinning in a circus act. Eventually Tech-Board found two merchant banks, NM Rothschild and Henry Ansbacher, and one commercial bank, the Midland.

The result is that this August civil works will begin in Gwent. The new plant will have a capacity of 88,000 tonnes a year and supply the automotive, furniture, toy and bed-making industries. In theory, 20 per cent of output will be exported and the plant will displace £25m worth of imports.

Only after three years will Tech-Board's assumptions about market penetration and margins be properly tested. By then the memory of so many presentations to largely unenthusiastic City audiences will have faded. But the experience has left many people including Learmond disillusioned by the UK financial community's capacity to raise finance for ordinary industrial projects.

"With the grat exception of 3i, the greater part of British institutions are terrified of green field projects," he says. And has it become easier than when he started-up Sheerness Steel? "No. Probably it is worse today," he says.

PEOPLE

John Richardson collects his ticket from Sketchley

Sketchley, the dry cleaning and photo processing group, yesterday announced that John Richardson, joint executive deputy chairman, would leave the company when his contract expires at the end of October.

Richardson, 51, and Tony Bloom, the other joint executive deputy chairman, joined Sketchley in 1990 when it was losing £800,000 a month and heavily overborrowed. The two are credited with bringing it back from the brink.

Richardson says he is leaving because "the job is done" and because he wants to return to Asia. Australian-born, he spent 18 years in Hong Kong with Hutchison Whampoa. He will be returning to Hong Kong to join BZW and Barclays Bank as chairman of their Asian operations.

Richardson says he and Bloom worked in tandem, selling off businesses with no future, rationalising the company's structures and introducing stricter controls on working capital. But most important, he says, was that they introduced a strong management team.

Through the successful management merger of dry cleaning and Supasnaps, which involved the closure of many unprofitable shops, they significantly reduced the groups's retail operating costs. Supasnaps, the photo processor, was acquired for a total cash payment of £8m in 1988.

During the past financial year, Supasnaps offset a difficult year in the core dry cleaning business. In June Sketchley reported pre-tax profits up by 6 per cent before exceptionals to £5.1m in the year to April 1.

The new division contributed £1.4m to operating profits of £6.6m. Excluding Supasnaps, sales fell by 3 per cent to £101.4m.

Bloom will remain as an executive deputy chairman but will step into a non-executive role once a new chief executive has been found. He says he has no immediate plans to leave Sketchley.

■ Triplex Lloyd, the Midlands-based engineering group, completed a management reshuffle with the appointment, announced yesterday, of Graham Lockyer (above) as group operations director. He put his feet under the desk on Monday last week.

Lockyer, 47, is an experienced engineer who was managing director at Dowty Aerospace Landing Gear. He joins the ranks of Dowty senior executives, like Bruce Ralph, now managing director at Glynwed, who have wandered off into Midlands manufacturing posts since the takeover by TI.

His appointment at Triplex Lloyd follows the departure last December of Norman Price, development director but in charge of operations. Since then, Triplex Lloyd has swept away a tier of divisional management and Lockyer will have responsibility for all operations, reporting to John Foley, the managing director.

■ The London Securities board of directors has effectively been turned over to its 29 per cent shareholder; yesterday an extraordinary general meeting put forward a third Nu-Swift director to its four-man board.

André Chudnoff, a long-time associate of Nu-Swift's majority shareholder Jacques Murray, was voted on to the board at a meeting which was initially called to vote on the removal of the company's chairman and executive director.

This move was forestalled by the resignation earlier this month of David Pearl and Richard Prickett. Chudnoff said London Securities did not expect to pay any compensation for their resignations.

Michael Evans, a director of Nu-Swift, was appointed non-executive chairman last Wednesday, and Jean-Jacques Murray, another Nu-Swift director, joined as an executive director earlier in July.

Nu-Swift, the parent company, was only privatised in March, but it is planned that London Securities will act as its listed property arm.

Proposals are currently being finalised for the acquisition of a number of Nu-Swift properties by London Securities, in order to reactivate it from its current position as a cash shell.

Two independent directors are due to be appointed to the board later this month.

■ Wellman, the specialist engineering company, yesterday announced a management overhaul as part of its £46m acquisition of three subsidiary businesses from FKI, the electrical engineering and components group.

Geoffrey Iley, the 64-year-old non-executive chairman, said the six-man Wellman board would be augmented by three new executive directors to oversee the expansion.

They will be led by Barry Jameson, 49, currently group managing director of FKI's precision controls division. Jameson, who has overall control of two of the FKI subsidiaries being sold, has been named managing director of the transport and technology division at Wellman.

He will be joined on the board by Tony Fletcher, 44, who replaces Jon Smith, 46, as finance director.

Fletcher, who was recruited from his own consultancy business, is a former finance director and company secretary at Mono Group, the pumps business. Smith, meanwhile, is to become a divisional finance director within the Wellman group.

The company has also promoted Roger Hancox, 45, currently managing director of Wellman Furnaces and Wellman Process Engineering. As a board director, he will oversee the process engineering division.

The shake-up is thought to have been masterminded by Alan Baxter, who joined Wellman last November as chief executive.

Baxter, 43, was an FKI director until June 1992.

Acquisition, Section II

Non-executive directors

■ David Jones, chief executive of Sharelink Investment Services, at the LONDON STOCK EXCHANGE.

■ Peter Davis, director general of the National Lottery, at PROVIDENT FINANCIAL.

■ Keith Ackroyd, md of Boots' retail division, at TAKARE.

■ Hugh Freedberg, chief executive of Hill Samuel, at MACQUARIE BANK.

■ John Bishop, former chief executive of Eagle Star, at DOMESTIC & GENERAL GROUP.

■ James Rawson has resigned from JAMES WILKES.

■ Keith Ackroyd, md of the division of Boots responsible for Halfords, at COWIE GROUP.

■ Charles Clarke has retired from SHIRES INVESTMENT.

■ Jim Butler, retired senior partner of KPMG Peat Marwick, at NICHOLSON GRAHAM & JONES.

■ Wolfgang Weiler, a member of the managing board of HuK-Coburg Insurance Group, at EUROPEAN SMALLER COMPANIES; Olivier Lecoin has resigned.

■ Tan Sri Raje M Alias, chairman of the Federal Land Development Authority (Felda) in Malaysia and of the Malaysian International Shipping Corporation Berhad, at YULE CATTO; Mason Nelson has retired.

■ Andrew Davison has resigned from MOSAIC INVESTMENTS.

■ Sir Richard Morris, chairman of UK Nirex and former chairman and chief executive of Brown and Root (UK), as chairman designate at NORTH SEA ASSETS on the retirement of Sir Jeffrey Petersen.

■ Ken Manley, former chairman of Freshbake Foods nd Campbell Foods, as chairman at GLOBAL GROUP; Kenneth Dibben has resigned.

■ Roy Pendleton at GREENWICH RESOURCES.

■ Michael Hunton has resigned from SYCAMORE HOLDINGS.

■ John Fender, md of the property advisory service of NatWest Investment Management, at TRUST OF PROPERTY SHARES; Harold Pasha has retired.

■ Peter Morley, retired personnel director of Tesco, at CRT GROUP.

■ Peggy Czyzak-Dannenbaum, md and co-founder of La Fornaia, at THORNTONS.

BUSINESSES FOR SALE

BUSINESS AND THE LAW

Pregnant woman illegally dismissed

EUROPEAN COURT

A woman who was dismissed from her job for becoming pregnant was unlawfully discriminated against on grounds of her sex, the European Court of Justice held last week.

The case concerned the employment and dismissal of a British woman, Mrs Webb. She had been hired to replace another employee who would be taking maternity leave. This leave would not begin for six months, and it was planned that Mrs Webb should undergo training during that time. It was envisaged that Mrs Webb should continue to work for the company after the return of the other employee from leave. Some three weeks after starting work, it was confirmed that Mrs Webb was pregnant. A week later, she was dismissed for becoming pregnant. Mrs Webb brought proceedings before the industrial tribunal, alleging sex discrimination contrary to the Sex Discrimination Act 1975.

The industrial tribunal dismissed Mrs Webb's case, finding that there had not been direct sex discrimination, in that the real reason for her dismissal was not her pregnancy but the anticipated inability to carry out the primary task for which she had been recruited – to cover the job of the other employee while the latter was on maternity leave.

According to the industrial tribunal, if a man had been recruited for the same purpose and he had told the employer that he would be absent for a comparable period to the likely absence of Mrs Webb, he too would have been dismissed. The tribunal also found that there had been no indirect sex discrimination. Although more women were likely to be unable to do the job for which they had been recruited because of the possibility of pregnancy, the employer had shown that the reasonable needs of its business required that the person recruited be available during the other employee's maternity leave.

Mrs Webb's appeals to the employment appeal tribunal and court of appeal were both unsuccessful. Mrs Webb then appealed to the House of Lords. The court decided on the basis of ECJ case law that it had to construe the applicable national legislation, so as to accord with the provisions of the relevant EC directive. It sought a preliminary ruling from the European Court of Justice.

The Court first emphasised that the purpose of the relevant EC directive was to put into effect throughout the European Community the principle of equal treatment for men and women as regards access to employment. The directive made it clear that equal treatment meant there should be no direct or indirect sex discrimination.

The Court reiterated its jurisprudence in this area: first, that the dismissal of a female worker on account of pregnancy constituted direct sex discrimination and, second, that the directive in question recognised the legitimacy, in terms of the equal treatment principle, of both protecting a women's biological condition during and after pregnancy and of protecting the special relationship between a women and a child in the period after childbirth.

The Court further held that notice should also be taken of a recent directive, which was not due to be implemented into national law until October 1994. This directive prohibited the dismissal of pregnant women in the period from the beginning of their pregnancy to the end of their maternity leave.

The Court then held that there was no question of comparing the situation of a pregnant woman incapable of fulfilling the task for which she was recruited with that of a man similarly incapable for medical or other reasons. Pregnancy was not comparable with a pathological condition. Further, the protection offered by Community law to a woman during pregnancy could not be dependent on whether her presence at work during maternity was essential to the functioning of the company.

Thus termination of a non-fixed-term contract on grounds of an employee's pregnancy could not be justified by the fact she was temporarily prevented from performing the work for which she was employed.

C-32/93: Webb v EMO Air Cargo (UK) Ltd, ECJ 5CH, July 14 1994.

BRICK COURT CHAMBERS, BRUSSELS

Stay secure on safety

Stephen Sidkin and **Nigel Miller** explain costly new product regulations

Before the summer is out, new product safety regulations will impose onerous and costly obligations on unsuspecting British businesses selling products to consumers. The lack of awareness among businesses reflects the minimal publicity given by the Department of Trade and Industry to the regulations.

The impact of the regulations will be exacerbated by the absence of a transitional period. Although they are still in draft, and therefore subject to change before they pass into law, businesses should be ready for their impending arrival.

The regulations, which implement the European Community's general product safety directive, significantly extend "the general safety requirement" in the Consumer Protection Act. They create a criminal offence of placing on the market a product which is not "a safe product".

However, as has been the case with other commercial law directives made by the European Council of Ministers, the drafting of the directive is poor and the language vague. The regulations will be superimposed on existing product safety legislation, thereby creating a complex web of legislation covering the same subject but in different terms.

Only products intended for – or likely to be used by – consumers are covered. A consumer is someone acting otherwise than in the course of a commercial activity, such as a business or trade. Goods used exclusively in the course of a trade or business (such as production equipment and capital goods) are therefore excluded. However, products which are used mainly in the course of a trade or business, but which might be used by a consumer for private use, are covered.

The regulations place obligations on "producers" and "distributors". In each, case the nomenclature is misleading.

A wide definition is given to "producer". It includes the manufacturer of the product within the European Union or someone who presents himself as the producer by affixing to the product his name, trademark or other distinctive mark (for example, retailers selling products under their own label). If the manufacturer is outside the EU, the representative or importer will be treated as the producer.

The definition also includes any other professional in the supply chain, insofar as his activities affect the product's safety properties. However, there is no definition of "professional". Any person who reconditions the product will also be a producer.

The same problem arises in respect of a distributor. This means any professional in the supply chain whose activity does not affect the product's safety.

No guidance is given by the regulations as to what constitutes the supply chain. It clearly includes manufacturers, importers, own-branders, wholesalers, distributors, retailers and leasing companies. It could extend to transporters, packers and warehousers.

The general safety requirement is that no producer will place a product on the market unless it is a safe product. For this purpose, a safe product is one which, under normal or reasonably foreseeable conditions of use, does not present any risk, or only the minimum risks considered acceptable and consistent with a high level of protection and the safety and health of persons. Risk is assessed on the basis of a number of factors, including:

● The product's characteristics, including its composition, packaging and instructions for assembly and maintenance.
● The product's effect on other products.
● The product's presentation, labelling, instructions for use and disposal, and other information provided by the producer.
● The categories of consumers who would be at serious risk when using the product. Particular consideration is to be given to children.

The producer must provide consumers with information to enable them to assess the risks inherent in a product throughout its period of use. This could be, for example, through the use of warnings. The withdrawal of a product from the market could be the end result. This obligation is continuous.

In turn, a producer must ensure that he is informed of the risks that the products might present. Post-marketing surveillance departments will have to be established.

The regulations give non-exhaustive examples of the steps a producer might take. These include marking a product so that it can be identified, sample testing of marketed products, investigating complaints, and keeping distributors informed of such monitoring.

The regulations also impose duties on distributors. By definition, distributors are not able to influence the safety of the product. Their duties are:

● To help ensure compliance with the general safety requirement.
● Not to supply products to any person that they know, or should have presumed on the basis of information which they had and as professionals, are dangerous products.
● To be involved in the monitoring of the safety of products placed on the market, distributors must pass on information on the products and co-operate in action to avoid risks.

Where the safety of a product is already governed by specific EC law, the regulations will not apply. This is subject to a proviso: if EC sectoral directives do not cover every aspect of safety, the regulations will still apply to those aspects not covered. This can be expected to cause difficulty to businesses and has been criticised by the Institute of Directors.

There are criminal penalties for breaking the regulations. An offence under the regulations can result in a maximum of three months' imprisonment or a maximum fine of £5,000 or both. It will be a defence to show that the defendant took all reasonable steps and exercised all due diligence to avoid committing an offence.

Local weights and measures authorities will enforce the regulations. They have the power to inspect goods and enter business premises, to require production of business records, to seize and detain goods and records, to require the opening of any container or vending machine and, if refused, to break it open.

The regulations impose an onerous duty on producers and distributors to become involved in actively and continuously monitoring the safety of products. Relying on measures taken and procedures adopted to comply with the Consumer Protection Act will be insufficient. Producers must adopt proactive, rather than reactive, procedures.

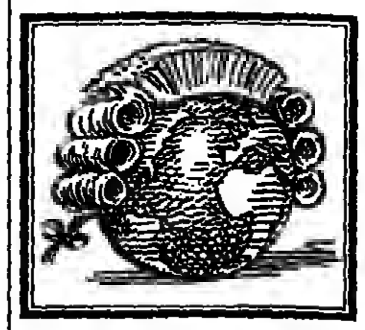
The regulations dictate that producers and distributors review their arrangements with suppliers and customers. In each case, suppliers will need to include provisions in their agreements requiring the other party to participate in product safety monitoring and marking procedures. This will enable information to be obtained.

But obligations cannot stop there. The other party should be contractually obliged to provide information to customers and be required to participate in product recall campaigns, as well as investigating complaints. At the same time, buyers should included provisions protecting them from any failure by a supplier higher up the chain to comply with the regulations.

Penalties for offences may be avoided or reduced if these courses are followed. They may also provide some contractual relief if claims are made by consumers.

The authors are commercial law partners at City law firm Fox Williams and specialise in advising on trading agreements. Free briefing note available from Fox Williams, City Gate House, 39-45 Finsbury Square, London EC2A 1UU

LEGAL BRIEFS



Setback for private claimants in the EU

Private claims brought by individuals in the European Union cannot rely directly on EC directives where member states have not passed implementing legislation, the European Court of Justice has reaffirmed.

In Faccini Dori v Recreb, the Court upheld the current position that only public sector employees can rely directly on EC directives where national legislation has yet to be passed.

The case concerned a Miss Faccini Dori, of Milan, who cancelled a language course contract. She claimed protection under the EC's directive 85/577 concerning consumer rights over contracts. No legislation has been passed in Italy to implement this directive. The Court ruled that consumers such as Miss Dori could not rely on directives, but added that, in the application of national laws, these have to be interpreted in the light of the directives.

However, the court also reaffirmed the principle established in "Francovich" that individuals could seek damages from national governments for breaches of a state's obligations. The case had been watched by UK employment lawyers concerned that, had the Court supported Miss Dori's application, it could have prompted changes in employment law where implementing legislation differs from directives.

US firm eyes UK

Sidley & Austin, a US law firm, is to expand its UK law practice with the appointment of three prominent City solicitors. Joining its London offices will be John Edwards, formerly head of information technology with Clifford Chance, and Howard Waterman and Graham Penn, both formerly banking lawyers with Cameron Markby Hewitt.

ARTS

The triumphant return of the Empire

Clement Crisp on an inspiring triple bill worthy of Edinburgh's refurbished theatre

Joanne Clarke, Simon Cooper and Lucy Smith in ENB's 'XNTricities': holding our interest by choreographic means as well as its sexual imagery

Anthony Crickmay

I have two vivid memories of the old Empire Theatre in Edinburgh. Festival habitues still speak of the terrible crashings and ill-muffled cries that attended scene-changes. (Gang warfare? Burke and Hare recruiting fresh bodies?)

During a Royal Ballet visit to the 1962 festival, Kenneth MacMillan's recent *Baiser de la fée*, with glorious decors by Kenneth Rowell, was presented. Lynn Seymour, as the Bride, made her first appearance through an arch. As she did so, the structure keeled forward, and nearly guillotined Donald MacLeary, her waiting beloved. A decade later, de-commissioned as a theatre, the Empire was pressed into service for the festival, when John Cranko brought his Stuttgart Ballet for its first visit.

Somewhere there is a photograph of Cranko and MacMillan standing either side of the notice which had been so graciously provided by patrons: "The management regrets the inconvenience to patrons. Bingo will resume in three weeks." Ah, the Athens of the North!

Edinburgh's need for another lyric theatre – larger than the pretty King's; less like Moscow airport than the dour Playhouse – has at last rescued the Empire from its fallen state. As David Murray reported from its Wagnerian opening last month, we now have the revised, refurbished, re-thought Edinburgh Festival Theatre, and jolly good it is, too.

It is especially good in its stage – broad, deep, well-equipped – and in its gleaming glass and steel facade and spanking new front-of-house. (Gone are the dingy days of crowded foyers, strange side-doors through which people could sneak in, and a lingering whiff of something un-dainty.)

The entrance is bright, spirit-rejoicing, with glassed-in promenades, bars, balconies, and a sense (as at the Opera Bastille) of an immediately welcoming and user-friendly location.

About the auditorium I have reservations. The policy has been to restore the old and familiar setting that had existed since 1934. Such nostalgia accepts the dreary colour scheme – omnipresent mulberry for seats, walls, curtain; a good deal of cream paint with a built-in hint of grime – that may recall the good old days, except that I doubt if they were in any way decoratively good at all. But the house is spacious, with a fine acoustic and sight-lines.

It offered an admirable showcase for English National Ballet, which has just completed a two-week season. (Several more dance visits are scheduled, which is good news.)

Were anyone to seek concrete evidence of the transformations wrought by Derek Deane in the year since he assumed artistic control of the troupe, it was there in the triple bill I saw in company with a large and enthusiastic audience.

Triple bills are notoriously hard to sell nowadays. ENB played an even more dangerous game by programming three less than sure-fire pieces: the Shades scene from *Bayadere*; the new *XNTricities*; and *Etudes*. All are plotless. All make big demands on their casts. The audience reaction was, clearly, one of delight.

The evening was, on these terms, inspiring. And no less so on terms of most of the dancing. The *Bayadere* showed a corps of 18 girls who understood the nuances and academic grace of Petipa's sublime inventions: they made complete and beautiful sense of every moment.

Margaret Illmann, a guest with the ENB, does not yet have the stylistic command to show us Nikiya's transcendant purity – in drama as in step. Her partner was Thomas Edur, and with him we see classic dancing whose dignity and emotional power is uniquely satisfying. He is a rare balletic being: an authentic, *pur-sang* aristocrat, able to give noblest utterance to every role he assumes. His Solor was princely in technique – the dance sure, luscious – and emotionally true.

ENB played a dangerous game. All three are plotless. All make big demands on their casts. The audience reaction was, clearly, one of delight

XNTricities, by the young Italian choreographer Mauro Bigonzetti, has settled well into ENB's repertory. Its imagery combines sexual and physical challenges. Its players strut and race, and are riven by curious tensions and confrontations. Its great merit is that Bigonzetti holds our interest by choreographic means.

No less real is the brilliant response of its cast to their tasks, led by Yat Sen Chang, who tears through the action like a well-guided missile.

Etudes, still fascinating as a portrait of dancers in class, seemed to me under a bit of a cloud. I must in all fairness record that I lately saw it in brilliant performance by the Paris Opera Ballet. ENB's dancers work with a will, and I salute the 18-year-old Giuseppe Picone, who whipped through a leading role with exultant clarity and a *joie-de-danser* that presage wonderful things to come.

A second evening brought *Swan Lake* in Raissa Struchkova's version of the old Bolshoi staging.

It is effective, and the company dance it with much goodwill: the first act waltz had a pleasing swing to it. Margaret Illmann and Rex Harrington were guest principals from the National Ballet of Canada. Their interpretations were well-meaning, and Harrington is a fine partner, but their manner suggested the emotional basics of soap-opera – *Santa Barbara*, perhaps – rather than the sublimities of this predictable but still-hallowed text.

As a traveller's note, let me recommend to anyone visiting Edinburgh the upper rooms of the National Gallery of Scotland, where the French paintings are a small but marvellous treat. Cézanne, of course, but also two miraculous Boudins, and a stunning Manve, *Vaut le détour.*

English National Ballet will open a week's season at the Coliseum on July 25.

Theatre

Tricks or memory treats

The more I watch Harold Pinter's plays, the more I love the way he plants images in the air and lets them grow there. A simple example in his 1978 play *Betrayal* is Jerry's recollection of picking up young Charlotte one Christmastime, of lifting her high and down and up, of how she laughed, of how everyone present laughed. Charlotte (never seen in the play) is the daughter of Robert (Jerry's best friend) and Emma (who was/is, for some years, Jerry's mistress). "Everyooe" present at that Christmastime includes Jerry's own wife and children.

The first irony about this memory is that Jerry and Emma evoke it when they are alone together. Thus they make it an image of the innocence that existed around and between them once, before their affair began; before they betrayed it. The second irony is that Jerry twice remembers the event as having occurred in Emma's kitchen; and that she twice corrects him – *his* kitchen. The deceptiveness of his (or her) memory has an ah-yes-I-remember-it-well charm, and yet also becomes poignant. Memory matters, but plays tricks.

And it is this image that Matthew Warchus makes luminous in his new production of *Betrayal* at the West Yorkshire Playhouse. Between each of the nine scenes, different clips of a film of a child – like a home movie – are projected on to the ceiling above the stage. (The audience, seated on four sides of the stage, can all see.)

The child's radiant smile, tumbling hair, constant motion all make an impression. At first, we watch her objectively; later, when she looks directly at the camera, we are touched; gradually, as we see – like the close-ups in Antonioni's film *Blowup* – increasingly near but blurry views of areas of her hair and face, we are confused.

Which works brilliantly. For one thing, it reminds us that Jerry and Emma have betrayed not only Robert but also their children. For another, it shows us the paradise of that bygone innocence: a paradise that is not a fact but an idea. And, further, it catches the method of Pinter's play, which moves to and fro in time but basically backward, from 1977 to 1968, from the time when the affair is wholly over to the point when it began.

The production reveals that, in its small-scale way, *Betrayal* operates as a Proustian effort to rediscover lost time. But lost time is lost. We never actually see Jerry lift Charlotte. We merely return to thinking about it, from changing distances and perspectives.

Warchus is strong on such poetic use of visual imagery: as in his 1991 National Youth Theatre *Coriolanus* and his current RSC *Henry V*. In the matter of shaping individual performances, his touch is not so sure. In *Betrayal*, Leslee Udwin is a surprisingly unenigmatic Emma, Richard Hope is an amiably unquestioning Jerry, and Timothy Walker is a Karenin-like Robert. Intelligent interpretations, with fresh touches that reveal new facets in the play. And Laura Hopkins' designs help them effectively to shed years as they move back in time.

But all three performances need more fine-tuning. There are actorly effects of pacing and dynamic contrast that do not convince, strokes of characterisation that should be developed. Surely all three characters, moving in artistic circles, should be more sophisticated?

Alastair Macaulay

At the Courtyard Theatre, West Yorkshire Playhouse, Leeds.

Theatre/Martin Hoyle

Poor Super Man throbs with power

Brad Fraser is the Canadian playwright whose award-winning *Unidentified Human Remains And The True Nature Of Love* made such an impact in Edinburgh and London last year, and coincidentally reaches the cinema screen this week.

***The Ugly Man*, brought to last summer's Edinburgh Festival by a Canadian company, was a huge disappointment – a dose of Tennessee Williams baroque turgidly combined with *Cold Comfort Farm*.**

Now the same city's Traverse Theatre, where Fraser had his first UK success, presents *Poor Super Man – A Play with Captions*. The writer is back on the territory he knows best: the isolation of the city-dweller, the disorientation of the emotionally lonely, the sexual odyssey of the unattached, eternally seeking the ideal relationship.

In *Human Remains* the shadow of a serial killer darkened the lyricism, comedy and pathos in this study of a small group of friends. In the new play the killer is identified from the outset: the HIV virus.

Shannon is denied a sex-change operation by his worsening medical condition. His eventual suicide focuses and sharpens the self-analytic gropings of the play's four other characters.

Chief among these is his flatmate David, an established painter, who (like the hero of *Human Remains*) takes a job as a waiter to dispel terminal jadedness – professional and personal. He falls in love with Matt, the married owner of the cafe; a development that echoes the central relationship of *Remains*. David (as in the earlier play, a questing seeker of love, assailed by self-disgust) has a loyal if possessive woman friend, the rueful, wisecracking journalist, Kryla; another throwback to *Remains*.

If much of this seems like a rerun of Fraser's most successful material, there is no denying he does it extremely well.

The reality of urban life nags like a throbbing tooth throughout. The characters live on a knife-edge between self-mocking buoyancy and suicidal despair. And the use of projections, the "captions" of the title, reveal the floundering beneath the brittleness; the urgency under the badinage.

Thus when David tells his new employers in the cafe that he is gay and they hastily confirm that this is "not a big deal", the word "queer" appears. "Do you dislike me?" asks the cloying Kryla to her dismissive friend; his denial is countered by a projected "maybe". The titles are used naturally to note time and place, to encapsulate a scene ("lie","revelation") and sometimes as a descant to the spoken dialogue ("me me me").

Even more than *Remains* the play's central thread is the stuff of homosexual wish-fulfilment fantasy: the gay who makes straight men fall exclusively for him: "There's something about you, things you say, the way you look at me," says the capitulating heterosexual.

In Ian Brown's direction of the European premiere such passages escape the trap of novelettishness thanks to the production's rhythm and pace – but without the external threat of a killer as in Fraser's previous success, the tension is finally diffused by the short, cinematic takes of the play's construction.

The piece is uniformly well-acted though Ian Gelder's David is rather unfocused, uncertain how much his actions are rudderless bewilderment, how much simply the result of selfishness. Christopher Simon's Matt is a fine study of puzzled sexual self-discovery. Elaine Collins is a lovely wry Kryla, and Kathryn Howden makes more of Matt's hurt, loving wife than one suspects the part is worth.

As Shannon, dying without achieving his ambition to become a woman, Jude Akuwudike goes through the play in dress and wig looking like one of the Supremes, in a beautifully judged blend of delicately camp self-parody and increasing anger.

The production returns for the festival, then transfers to Hampstead. Fraser's fans will recognise the expertise of his variations on favourite themes, but may well begin to wonder what else he can do.

Traverse Theatre, Edinburgh.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

Concertgebouw Tonight: David Shallon conducts Jerusalem Symphony Orchestra in works by Mendelssohn, Kopytman and Schumann, with viola soloist Tabea Zimmermann. Tomorrow: Borodin Quartet with pianist Eliso Virsaladze. Thurs: Ton Koopman and Tini Mathot, harpsichord and organ recital. Sat: Ross Pople conducts London Festival Orchestra in Copland, Vaughan Williams and Tippett. Next Mon: Lev Markiz directs New Sinfonietta Amsterdam in Mendelssohn and Schubert, with violin soloist Vadim Repin (020-671 8345)

■ ATHENS

ATHENS FESTIVAL

Cristina Hoyos Ballet gives performances at the Odeon of Herodes Atticus on Sun and Mon. Greek National Opera Ballet presents Rudi van Dantzig's production of Prokofiev's Romeo and Juliet on July 27 and 28. Hildegard Behrens, Dmitri Sgouros and Mstislav Rostropovich are soloists in a Sakharov memorial concert on July 30 (Athens Festival box office, 4 Stadiou Street, in the arcade. Tel 01-322 1459/01-322 3111. Open Mon-Sat 8.30-14.00 and 17.00-19.00, and Sun 10.30-13.00)

EPIDAURUS FESTIVAL

The annual festival of ancient drama in the 1,400-seat amphitheatre at Epidaurus hosts performances of Greek classical drama on most weekends throughout the summer. National Theatre of Greece presents Euripides' Hecuba on Sat and Sun. Peter Stein brings his marathon Moscow production of The Oresteia on July 30 and 31. Tickets are available daily at the Athens Festival box office (01-322 1459) or at the theatre of Epidaurus on Fri, Sat and Sun (0753-22006)

■ CHICAGO

THEATRE

● A Little Night Music: Michael Maggio directs this Sondheim classic, hailed as the perfect romantic musical comedy. Till Aug 7 (Goodman 312-443 3800)

● Breaking the Code: Hugh Whitemore'a 1986 play about loyalty, national expediency and homosexuality is in repertory with Anthony Clarvoe'a The Living, a new play about the London plagua of 1600. Final week (Interplay 312-654 1055)

● Talking Heads: Steppenwolf alumnus and famed character actor John Mahoney directs tha American premiere of Alan Bennett's tragicomic series of monologues. Just opened (Steppenwolf 312-335 1650)

● Jeffrey: as part of their Pride Performance series of gay and lesbian theatre, Balliwick Repertory presents the Chicago premiere of Paul Rudnick'a hit comedy about love and dating in the age of Aids (Balliwick 312-327 5252)

RAVINIA FESTIVAL

Tonight: Victor Borge. Tomorrow: John Denver. Thurs: Jane Olivor. Fri: Eri Klas conducts Chicago Symphony Orchestra in works by Nielsen, Grieg and Sibelius, with piano soloist Misha Dichter. Sat: Klas conducts a Russian programme, with cello soloist David Geringas. Mon: Beaux Arts Trio. The festival runs till August 28. To order tickets by phone, call 312-ravinia. Outside the metropolitan Chicago area, call 1-800-433-8819. Tickets can be ordered by fax 24 hours a day: 708-433 4582.

■ LONDON

THEATRE

● The Miracle Worker: Richard Olivier directs William Gibson's trua story of the development of a teacher's relationship with a deaf, dumb and blind girl. First produced in 1959 with Anne Bancroft, this new production stars Jenny Seagrove, William Gaunt and Judi Bowker. Opens tonight (Comedy 071-369 1731)

● Saint Joan: Gail Edwards' Theatr Clwyd production of Bernard Shaw's classic comes to the West End with Imogen Stubbs as Joan of Arc, caught between her rebellion against the feudal state and tha authority of the Church. Previews start tonight, opens on Thurs (Strand 071-930 8800)

● Lady Windemere'a Fan: Philip Prowse directs and designs Oscar Wilde's 1892 comedy. Previews start tonight, opens next Mon (Albery 071-369 1730)

● The Seagull: Judi Dench stars as Arkadina in Pam Gems' new version of Chekhov's play about disappointed aspirations. John Caird directs (National 071-928 2252)

● The Tempest: Alec McCowen heads the cast in Sam Mendes' RSC production, in repertory with King Lear starring Robert Stephens (Barbican 071-638 8891)

● Home: Paul Eddington and Richard Briers in a revival of David Storey's 1970 play (Wyndham'a 071-369 1736)

● She Loves Me: a highly successful West End transfer of Scott Ellis' Broadway revival of the charming 1963 musical by Masteroff, Bock and Harnick (Savoy 071-930 8800)

MUSIC

Royal Albert Hall This week's Proms feature the CBSO under Simon Rattle tonight, the BBC Philharmonic under Vernon Handley tomorrow and Yan Pascal Tortelier on Thurs, the BBCSO under Haitink on Fri, the Australian Youth Orchestra with Yakov Kreizberg on Sat, Bach's B minor Mass conducted by Joshua Rifkin on Sun morning, the RPO with Vladimir Ashkenazy on Sun evening and the BBCSO under Mark Elder on Mon (071-589 8212)

Barbican Kronos Quartet is in residence till Fri, followed on Sat by the Labeque Sisters. Sun: Neville Marriner conducts ASMF in a Beethoven programme, with piano soloist Till Fellner (071-638 8891)

South Bank Centre This week ia devoted to tha JVC Jazz Parade, including George Shearing Duo and Diane Schurr tonight, and B.B. King, Roy Rogers and the Delta Rhythm Kings on Sun. Next week is devoted Tha American South, a festival of music, literature, theatre, visual arts, dance and food from the southern states of the US (071-928 8800)

OPERA/DANCE

Covent Garden The Royal Opera ends its season with Aida tonight and Fri, La fanciulla del West tomorrow and Sat, and Manon on Thurs. The Royal Ballet returns on July 27 (071-240 1066)

Coliseum English National Ballet opens a week of performances next Mon, featuring a mixed bill and Ronald Hynd'a new production of Sleeping Beauty (071-836 3161)

■ MILAN

Teatro alla Scala Tonight, tomorrow, Thurs, Fri, Sat: John Cranko'a ballet Onegin. End of season (02-7200 3744)

■ MADRID

Teatro Lirico La Zarzuela Thurs, Sat, next Mon: Alberto Zedda conducts final performances of Pier Luigi Pizzi'a production of L'Italiana in Algeri, with cast including Ruggero Raimondi (01-429 8225)

■ ROME

Angelin Preljocaj and the Paris Opera Ballet present choreographies by Preljocaj tonight, tomorrow and Thurs at Museo degli strumenti musicali. There are piano recitals by Ingeborg Baldaszti tomorrow at Istituto Austriaco di Cultura, and by Rosa Torres Pardo on Thurs and Jean Claude Pennetier on Fri, both at Palazzo Farnese. Villa Medici hosts contemporary music concerts daily till Sat, focusing on Xenakis and Nono (tickets 06-361 2682/06-372 0216/06-291 0335 information 06-4890 4029)

■ STOCKHOLM

Drottningholm A fantasia on the opera world of Handel, entitled Heavenly Handel, opens on Friday, with cast headed by Anne Sofia von Otter and Barbara Bonney. Repeated July 25, 27, Aug 5, 7 (08-660 8225)

■ VENICE

Teatro La Fenice Tonight: first of nine performances of La boheme, conducted by Marcello Viotti and staged by Giorgio Marini (041-521 0161)

■ WASHINGTON

● The main aummer show at the Kennedy Center is Miss Saigon, the musical love story set during the Vietnam war. Daily except Mon (202-467 4600)

● Alan Ayckbourn's farce A Small Family Business runs till Aug 7 at Olney Theater (301-924 3400)

● David Zinman conducts the Baltimore Symphony Orchestra in all-Mozart programmes with piano soloist Barry Douglas on Thurs and Sat at Oregon Ridge (410-783 8000), and on Sun at Wolf Trap. This week's bill also features Santana tonight, and Peter Paul and Mary on Fri and Sat (703-255 1860)

ARTS GUIDE

Monday: Performing arts guide city by city.
Tuesday: Parforming arts guide city by city.
Wednesday: Festivals guide.
Thursday: Festivals guide.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV

(Central European Time)

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NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230

MONDAY
NBC/Super Channel: FT Reports 1230.

TUESDAY
Euronews: FT Reports 0745, 1315, 1545, 1815, 2345

WEDNESDAY
NBC/Super Channal: FT Reports 1230

FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030

SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730;

BAT-man's opening

Neil Buckley on the tobacco giant's strike into Uzbekistan

Mr Victor Chzhen, deputy prime minister and privatisation minister of the ex-Soviet republic of Uzbekistan, had saved his bombshell until the last moment.

Executives of the UK-based tobacco and financial services group BAT Industries, meeting ministers in the capital Tashkent, were expecting to clarify details of a preliminary agreement to acquire a majority stake in Uzbekistan's tobacco industry. Towards the end of the meeting, however, Mr Chzhen made a "suggestion". Might BAT perhaps buy not 51 per cent, but 97 per cent of the industry immediately – involving an extra up-front payment of some $54m?

BAT's chairman Sir Patrick Sheehy said he would discuss the proposal with his team; within 24 hours a carefully worded letter was despatched to Mr Chzhen informing him that his suggestion was "regretfully unacceptable".

Such are the uncertainties of doing business in Uzbekistan. Although its former communist president, Mr Islam Karimov, has embraced market reforms, the country has a reputation for being a tricky place in which to operate. But in spite of bureaucratic wrangling, and poor infrastructure and communications, companies such as BAT are showing that it is possible to do deals with a republic which for centuries straddled the Silk Road trading route, and has ambitions once again to be a centre of east-west trade.

The 22m-strong state is starting to attract interest from both east and west. The first products of a joint venture between Coca-Cola and a local company appeared in Tashkent last month; US mining company Newmont has a gold-mining project; and Daewoo, the South Korean conglomerate, has a joint venture to produce cars from next year.

The BAT deal, which should be completed within weeks, is Uzbekistan's biggest privatisation. BAT is spending $60m on its 51 per cent stake in Uz Tobacco, a state enterprise comprising the republic's only cigarette factory, in Tashkent, and tobacco-processing plants in the second city Samarkand, and in Urgut, a tobacco-growing centre.

BAT plans to invest a further $232m over five years, refurbishing the Tashkent plant, building a cigarette factory in Samarkand, and installing new equipment in Urgut. Within five years it hopes to increase domestic cigarette production from 4bn cigarettes a year to up to 25bn – outstripping the republic's estimated demand of 20bn a year. BAT's equity holding is set to increase to 97 per cent over the five years as it puts money into the venture.

Cigarette packets: a puff for the west

Before and after: an Uzbek brand (left) and a new high-quality product produced by BAT's joint venture in Ukraine

- Present annual production of cigarettes: 3.6bn
- Estimated annual demand for cigarettes: 20bn-22bn
- Forecast annual production of UzBAT joint venture after 5 years: 25bn (10bn-12bn after three years)

Source: BAT

"This is the first time we have agreed such a large joint venture, and in effect handed over a whole industry to a foreign partner," says Mr Ismail Jurabekov, Uzbekistan's first deputy prime minister.

Getting to this stage has, however, taken eight months of negotiation and been fraught with difficulties. BAT's team in Tashkent says operating in Uzbekistan can be more frustrating than in the third world. Its biggest complaint is the bureaucracy. "In Africa, you may be kept waiting, but usually you are dealing with someone who can make a decision, and after a while they will make a decision," says a team member. "Here, nobody wants to make a decision."

One reason may be the political struggles going on inside the government, where ministers jostle for position and appear anxious not to make political mistakes.

Another problem is the lack of proper legal and tax frameworks. Land-leasing is unknown in central Asia, and in establishing the rent for its 99-year leases on its factory sites, BAT is setting the benchmark for future investors. It is urging the government to equalise the tax treatment of imported cigarettes, which are excise-free, and those produced domestically, which are subject to an excise tax of 900 per cent – a relic of the Soviet era when imports were small.

While some difficulties have been surmounted, risks remain. The ruthless political efficiency of the ruling People's Democratic Party, which has outlawed the main opposition movement, has not been matched by economic performance. Inflation was running at an annualised 1,500 per cent in the first quarter of this year; there are negative real interest rates and cheap credits are propping up near bankrupt state enterprises. There is little hope that the som, the new currency introduced this month, will hold its value any better than its predecessor.

If the value of Uzbekistan's currency is questionable, so is the worth of its industrial assets. At the Tashkent cigarette factory, the most modern equipment dates from the 1960s; the oldest from 1922. In the factory, electric cables dangle from the ceilings. Subjected recently to a standard BAT factory safety inspection, Taskent scored 2.3 per cent. The pass mark is 70 per cent.

"The machinery and buildings in these places really have negative value," says Sir Patrick. "What you are buying is the business, and the market. You have got to have a lot of confidence that you are buying this negative base, but you can make money from it."

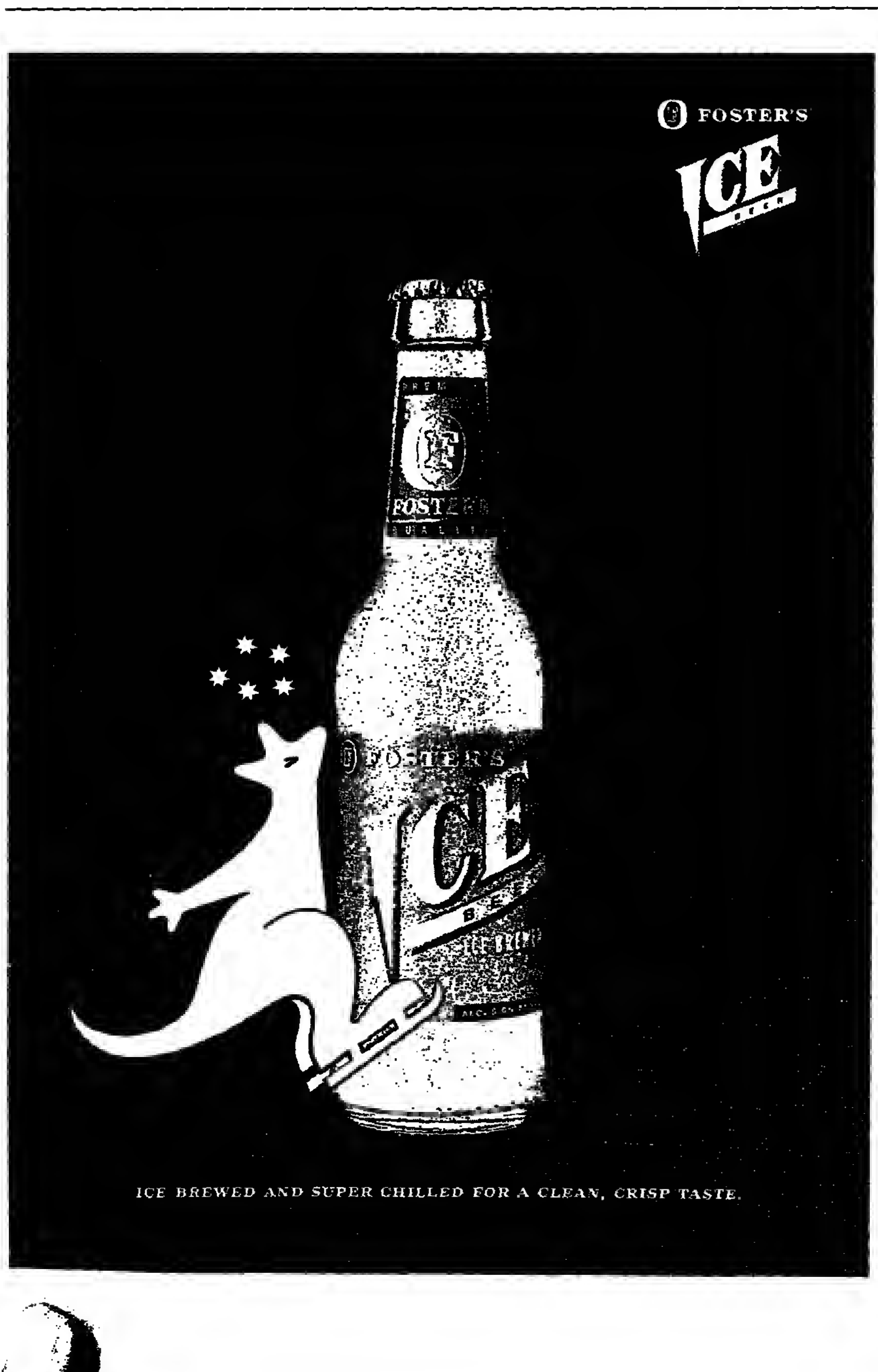
Sir Patrick is confident that his deal will make money for BAT, and for Uzbekistan. BAT gets a monopoly of domestic cigarette production for five years. It acquires the rights to local brands, and the opportunity to manufacture locally "value-added" international brands. It gets a skilled, but low-cost workforce (average wages are about $10 a month) and manufacturing capacity that should eventually enable it to export cigarettes to other former Soviet republics.

For its part, Uzbekistan gets much-needed dollars, and an industry rebuilt. The new factory in Samarkand will create 500 jobs, and the government can look forward to increased excise and value-added tax revenues as cigarette output rises.

It should also earn more from tobacco exports – currently more than 30,000 tonnes a year – as BAT will provide technical assistance to Uzbekistan's farmers, and hopes to introduce, alongside the existing "Oriental" tobacco crops, the Virginia and Burley varieties needed for producing international-quality cigarettes.

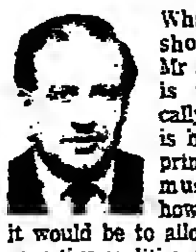
Some evidence that such ventures can succeed in former Soviet republics can be found 2,000 miles west, in eastern Ukraine. In Priluky, BAT bought 65 per cent of a newly-privatised tobacco factory last year. In a republic whose economy is arguably in a worse state than Uzbekistan's, and selling cigarettes for the equivalent of a few US cents a pack, the Priluky plant made a profit last year. New technology has enabled it to introduce a higher-quality brand.

"These areas may be risky," says Sir Patrick, "but if you take a long-term view, the opportunity is there to get in at a low price, and add value."



Joe Rogaly

Shake to the right beat



Whatever his shortcomings, Mr John Major is not politically stupid. Or is he? The UK prime minister must know how dangerous it would be to allow his Conservative coalition to be led by the hard right. He has recently been urged to avoid this pitfall in speeches by Mr Douglas Hurd, Mr Kenneth Clarke and Mr David Hunt, to name all three. Thanks to the first two, the Tories' fragile concordat on Europe holds, but, as to domestic economic and social policies, a reversion to the harsh theme music of the 1980s may seem tempting. There is so much internal discord. Will this noise never cease? Not while the government stays divided. If you cannot beat the Thatcherites, Mr Major might reason, then for the party's sake allow them to win.

If he succumbs, we must ascribe his failing to weakness. He will not have the excuse of ignorance. The Tories belted out the anthems of the narrow right at their conference last October. Look where that got them. The promotion this week of ministers who are at their merriest when singing songs of purple patriotism and perverse parsimony would raise the spirits of some, but dismay the gentle English soul. What the uncompromising right tends to forget is, not that the party to which they have attached themselves won the last four elections, but that in 1979, 1983, 1987 and 1992 Labour lost. It cannot be relied upon to do so a fifth time.

We voters are motivated by self-interest. But altruism, a sense of concern for others, is also part of the general make-up. Many years ago, the late professor Richard Titmuss wrote *The Gift Relationship*, in which he demonstrated that the blood given for free by English donors was better, less prone to infection, than the blood sold to hospital services by the poor in the United States. This has not changed, much. The American blood-buyers are doubtless more picky than they were, but in England a brand-new quango, the National Blood Authority, headed by a gentleman farmer, still collects the fluid from volunteers' arms. Cash does not come into the equation.

It is possible that the electorate is shrinking from cash-ism. Not so far that it wants a return to the 1970s, but that is not on offer from any source. The potential appeal of the Labour party, tamed as it has been by 15 years of frustration, is that it will offer the voters reassurance as to their self-interest, but add a dash of altruism – not too much, mind you – to the formula. Middle England is uneasy about *everything – unemployment, house prices, crime and the steady, unceasing hammer of change*, change in schools, hospitals, local government, police authorities, the judicial system, all the institutions that once seemed so familiar, so reliable. If the Conservatives will not conserve, anxious voters will ask themselves, why not dismiss them?

Middle England is uneasy about everything – unemployment, house prices, crime and the steady, unceasing hammer of change

This is not to say that the government's market reforms are wrong. They are, mostly, an improvement, or a promise of one. The process is, however, too crude, too naked. The British polity is being reformulated by accountants sitting in quangos managed by Tory puppets. The values of the bottom line are undiluted. There is no provision for altruism in the cash-ist revolution.

Here I sympathise with the Right Reverend Mark Santer, Bishop of Birmingham. In his recent address to the British Medical Association, he acknowledged that change in the management of the health service is inevitable, but spoke also of practitioners "fulfilling a vocation . . . offering a service of love and duty to their fellow men and women". This kind of declaration is pointless if it denies the need for simple fiscal prudence. That is not, however, at issue. Voters understand, if the brainless bean-counters do not, that a sense of vocation has driven the NHS since 1948. Destroying that willingness to serve could be costly. Subtle market reformers would understand this.

The electorate may also dimly apprehend the relationship between the polarisation of our two nations and the increase in anti-social behaviour. Two nations? Of course. In ours, you have a job, own a house, run a car, keep in with your bank manager, take foreign holidays, and know, deep in your heart, that you could, at a stretch, buy your family's way ahead in the health queue, or change your children's school. In theirs, they have none of these things. British society is becoming more divided every year. The evidence is in "Households Below Average Income", published last week by the Government Statistical Service.

It shows the proportion of the population living on below-average income as 59 per cent in 1979, when this government first took office. In 1991-92, the latest period for which numbers are available, the equivalent figure was 62 per cent. Some 9 per cent of our people scratched by on less than half average income when the then Mrs Thatcher arrived; 13 years later the figure had risen to 25 per cent. Yes that's right. A quarter of us. The sums look much the same if you exclude housing costs. The worst off fared worst. Average net income rose by 36 per cent in the period, but none of the extra fat went to the lowest fifth of the population.

As to the lowest tenth, real median income actually fell by 17 per cent. The poorest individuals in 1979 may have been replaced by others by 1992, but that observation, among many other explanations in the accompanying commentary, does not feed the children. Undeclared black economy income may have helped some of the underclass get by, but the overall picture is likely to have deteriorated since 1992. The family expenditure survey, on which the government's figures are based, excludes people in institutions and those living rough or in bed and breakfast accommodation.

The harsh truth is that nobody has a satisfactory answer to any of this. The proponents of one-nation policies, be they Conservative or Labour, do at least show some inclination to try. Whatever their protestations, however generous their personal behaviour, the Tory right cannot easily persuade us that kindness, the essence of charity, figures in its calculations. Clear away those beggars! Deny those single parents! Forget the poor! Exclude! Banish! Despise! Their slogans are depressingly easy to caricature. If Mr Major allows those who purvey them to prevail, he, and his party, will deserve to lose.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Cultural trends in German equity markets

From Mr Jim Platts.

Sir, On July 14 I attended a manufacturing engineering conference where discussioo centred on the competitiveness of European industry. We consistently heard examples both from the speakers and from the floor of long-term views and solid investment in Germany (and elsewhere) and the lack of such investment and vision in the UK.

It was typical that on the same day I should find a report in the FT, by David Waller, on the lack of a share culture in Germany, as if it were some kind of disability ("Resisting the bait of equity ownership"). I think what he meant was that they don't have a share *trading* culture – because they recognise that wealth creation is a product of custodianship in which share trading can only ever be secondary.

Do we get a balancing article on the lack of an *ownership* culture in the UK?

Jim Platts,
department of engineering,
University of Cambridge,
Mill Lane,
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From E H Clausson.

Sir, David Waller's report misses two aspects when he lists actions required for overcoming the lack of an "equity culture" in Germany.

First, the leading German banks, including Mr Rolf Breuer's Deutsche Bank, must create incentives for young people to become involved in stock exchanges.

For decades, these banks have erected ever higher barriers for young newcomers to these exciting markets. I guess the bankers consider the short-term costs for such programmes too high and they have failed to recognise their primary long-term responsibility. Without a broadly based participation, starting with the young, I cannot see an "equity culture" developing in Germany.

Second, several decades ago, the German government created the "Volksaktie" when selling, for example, Volkswagen. If the government finally decides again to sell off state enterprises such as Lufthansa, Telekom, etc, I hope it looks to the UK and learns from the series of successful privatisation programmes. Sid could be useful in helping the German government and banks to develop an "equity culture".

E H Clausson,
The Penthouse,
176 Leigham Court Road,
London SW16 2RF

House price trends and recovery

From Mr Peter Miller.

Sir, Samuel Brittan is right to point out that soaring house prices are unhealthy for the economy (Economic Viewpoint, July 7). But he fails to comment on the problems caused by a depressed housing market.

Without a strong housing market – remembering that the phrase refers as much to the number of transactions as to prices – the economy cannot reap the benefits of the *increased* outlay on *goods and services* that go with moving house.

The "wealth effects" that a modest rise in residential property prices create cannot be measured, but without their reassuring presence to the home-owner, consumer spending is unlikely to play a large role in facilitating the economic recovery.

Peter Miller,
Royal Institution of Chartered Surveyors,
12 Great George Street,
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SW1P 3AD

All you need is love . . . and dress sense

From Mr Shinji Kimura.

Sir, Further to your coverage of the Takarazuka Revue (Arts: "Cross-dressing Japanese style", July 13), please allow me a brief word in reply.

Is it really necessary to take everything in life so seriously? Or do people in England not feel that there are moments when you can say "It may be crazy but I love it", or "It may be kitsch but it's fun . . ."? You see, all that I am trying to do through my work is to bring a little more light into the world.

And if we do have to be serious, please at least remember that, unlike some people, we do not set out to hurt anyone. I believe that it was your countryman John Lennon who said it best: "All you need is love."

Shinji Kimura,
artistic director,
Takarakura Revue,
1-57 Ichome, Sakaemachi,
Takarazuka,
Japan

From Mrs Ann Turk.

Sir, Bravo, Clement Crisp (Arts: "The decline and fall of elegance", July 18)! In my stalls seat at the Royal Opera House *(not* paid for by corporate hospitality) I have rubbed thighs and shoulders with a man wearing shorts with an Hawaiian shirt.

Ann Turk,
119 Barnfield Avenue,
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KT2 5RG

Essential that green belt remains strong

From Mr William Walton.

Sir, Paul Cheeseright's article (Property, July 15) noted that a number of developer interests had expressed the wish that the environment secretary should relax the currently defined West Midlands green belt when issuing his forthcoming strategic planning guidance for the region.

However, they should understand that the secretary of state is constrained in the matter by his more general advice on green belts contained in Planning Policy Guidance Note number 2 issued in 1988, currently under review, which states the need for "exceptional circumstances" when proposing alterations to established green belt boundaries.

Given that it is most unlikely that the secretary of state will delete this policy requirement from the emerging policy advice on green belts, any proposed relaxation of the West Midlands green belt must be supported by very convincing reasons.

While it is undeniable that potential investment in housing and commercial development that is prohibited from its preferred location on the urban fringe by green belt policy will not necessarily take place in inner city areas where it is needed most, it remains that a strong green belt policy is required as part of an overall strategy for government policies on urban regeneration and sustainable development.

William Walton,
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No point to government proposal on delegating pay bargaining

From Mr Barry Reamsbottom.

Sir, Publicatioo of the white paper on civil service reform continues the depressingly regular process of the government announcing the introduction of new policies, while quietly signalling the demise of others ("Whitehall faces sweeping reform", July 14).

The delegation of pay to all departmeots and agencies by April 1 1996, the latest ministerial fad, will only result in both a massive extension in costs, as well as in the actual numbers of people who will now need to be employed on annual negotiations exercises.

National pay bargaining arrangements, by and large, have worked very well. In their place will come 150 bargaining units and an increase in negotiators and back-up staff from a handful based in the Treasury to an estimated 3,000 across every department and agency.

There is, of course, no evidence that the fragmentatioo of pay bargaining will either reduce the overall pay bill, or ensure that particular groups of staff will have better performance rewarded.

All that has happened this year, for instance, in those areas that already have delegated pay, is that the hundreds of extra hours of negotiations in different agencies have resulted in remarkably similar, if not exactly identical, pay deals. And, as in the case of Railtrack, the potential for disputes will mushroom because Treasury ministers will still be breathing down the necks of these 3,000 negotiators. So what on earth is the point?

The birth of a new policy also sees the timely death of another – market testing. Buried deep within the white paper is the announcement, quite unthinkable at the start of this year, that the Treasury will no longer insist on departments establishing market testing programmes with centrally set targets. Market testing has been an enormously costly disaster, which ministers now admit, even if they still will not say so in so many words. I have no doubt that within a few years delegated pay is likely to go exactly the same way.

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Antitrust and global markets

Whatever the impact on the computer industry of this weekend's settlement of monopoly proceedings against Microsoft, the world's largest software company, it marks a milestone in antitrust law. The unprecedented co-operation between authorities in Washington and Brussels which it occasioned seems bound to add to the growing debate about how competition policy should be adapted to the realities of global markets.

Admittedly, it is still uncertain how far the case will set a pattern for the future. The international co-ordination involved was possible only because Microsoft authorised the two authorities to exchange information – an arrangement which their own rules would normally preclude. Yet the fact that such co-ordination was deemed desirable underlines the growing propensity of competition issues to spill across frontiers.

Concern about how to respond to this trend has taken a variety of forms since the 1970s, when many developing countries clamoured for tighter international controls on multinational companies. In the 1980s, the focus switched to averting conflict due to the extra-territorial application of US and European competition policies – a problem which led to the conclusion of a bilateral treaty.

In the 1990s, two more issues have emerged. One is the worldwide spread of national competition laws, introduced as part of market-based economic reforms. This proliferation of different rules and procedures threatens to impose a heavy compliance burden on companies which operate internationally, and to create a regulatory minefield.

The second issue is the growing inter-play – and potential conflict – between antitrust and trade policies, as economies become more exposed to global competition. That has prompted demands that the matter be placed on the agenda of the World Trade Organisation, the successor to the General Agreement on Tariffs and Trade.

Some experts believe these pressures will ultimately lead to the creation of a global cartel office. But the surrender of sovereignty which that would require makes it improbable in the foreseeable future. A more realistic way forward is through closer co-ordination of national policies, bilaterally and within regional economic blocs.

That should reduce the risk of regulatory and procedural disparities between countries. However, closer co-ordination is unlikely to solve all the problems arising from the complex linkages between competition and trade policy. Indeed, it could exacerbate them if, for example, it encouraged the US and the EU to try jointly to impose their competition policy precepts on other countries in an attempt to prise open their markets.

Such tactics have already been invoked by the US in its trade dispute with Japan. They represent an unacceptable intrusion by one government into another's domestic affairs, which threatens severe international friction.

That is the strongest argument for placing competition and trade policy on the WTO agenda, so as to ensure that the debate is anchored in a multilateral framework. The first priority should be to identify precisely how the two policies inter-act. Among the issues to be resolved are the links between competition policy and anti-dumping measures, and how far alleged market barriers are due to deficient competition laws, as opposed to cultural and consumer preferences.

The US and the EU should build on the mutual understanding evident in the Microsoft case to further these objectives.

Pressurised gas

There signs that the government may be hesitating about deregulating the British gas industry. A long-awaited Gas Bill has yet to emerge, and reports suggest that the Cabinet may have decided to demote the subject on its agenda.

If this is the case, something must have deflected the government from the course it adopted at the beginning of this year when it set a clear timetable for reform of the gas market. One guess is that ministers have taken a closer look at the price implications of deregulation, and heeded the warnings from British Gas that millions of households would end up with higher gas bills as a result of greater competition. This is because an open market would drive out the cross-subsidies which have kept the bills of more modest consumers of gas low at the expense of larger users.

But it is late in the day for a change of heart. Last year's thorough report by the Monopolies and Mergers Commission concluded that deregulation would be in the national interest. And although the arguments have received a further airing since then, no fresh problems have surfaced that could not be dealt with by the market regulator.

It is true that, from the government's point of view, there is little short-term mileage to be had from deregulating gas: there are no privatisation proceeds, and any price rises that do occur will be unpopular. But this anxiety has to be set against the longer term economic benefits of improving the efficiency of Britain's energy infrastructure by encouraging competition. Ministers should not give up just as they are entering the last lap.

Algeria's agony

"The status quo is no longer tenable." That remark about Algeria was made some weeks ago by Alain Juppé, the French foreign minister. It is the nearest France has come, in public, to admitting the failure of its policy in that country – a policy of backing the present military regime on the grounds that, whatever its faults, it is preferable to the Islamic alternative.

The thinking behind that policy is easy to follow. Islamic militants have been increasingly ruthless and indiscriminate in their use of violence, and increasingly intolerant in their social attitudes, especially towards emancipated women and secular intellectuals. Some of their leaders have openly rejected democracy as incompatible with Islam. Others' espousal of it may be purely tactical or, if sincere, might not survive once they were in power and facing serious opposition. An Islamic victory even by democratic means – such as was about to happen in January 1992 – could easily be a case of "one man, one vote, once", as an American diplomat has said. It could also trigger the flight *en masse* of Algeria's westernised middle class, most of which would head for France.

But the policy is not working. Two and a half years after the elections were cancelled, Algeria is further than ever from civil peace. Foreigners, including diplomats, have become regular targets of terrorism, and the regime seems powerless to protect them. Attempts at dialogue with the imprisoned leaders of the Islamic Salvation Front (FIS) have been abortive, even though those leaders have now more or less abandoned the conditions – release of all political prisoners and new elections – on which they were insisting earlier in the year.

Many observers believe President Liamine Zeroual is prevented from pursuing this option by the hardline group of "éradicateurs" around the chief of staff, Gen Mohamed Lamari. The methods favoured by that group may be said to have "worked" in Syria, when President Hafez al-Assad destroyed the ancient city of Hama and killed tens of thousands of people in 1982. It is highly questionable whether they can work in Algeria, or if they can whether the price is worth paying. For the moment they have produced a civil war in which no quarter is given, in which terrorists enjoy the legitimacy of frustrated democrats, and in which Algerians of liberal persuasion are as likely to be victims of one side as of the other. Many have already fled to France, ostensibly as visitors, or are trying to get visas to do so.

Unpleasant facts must be faced. The longer Mr Juppé's untenable status quo is maintained, the more bitter and uncompromising an eventual Islamic regime is likely to be. French, European, and indeed western policy should now be directed at ending the violence and ensuring a smooth transition. Further economic aid to Algeria should be made conditional on the early holding of free elections, with this time firm guarantees that the result will be respected whatever it is.

If the result gives power to the FIS, its leaders will then have both instruments and incentives to curb extremist violence, which at present they lack. They would also have a strong incentive to maintain good relations with the EU. (The EU takes 70 per cent of Algeria's oil and gas exports, on which in turn the country depends to feed and employ a population growing at 2.7 per cent annually.) Algeria would not for some time be a liberal democracy, or a paradise for westernised intellectuals. But it could stop being the hell for all its inhabitants that it is now.

Feeling the pinch around the middle

Gillian Tett and **Daniel Green** explain why some – but not all – manufacturers' margins are being trimmed

As the latest UK business statistics tumble on to desks, economists might hear the echoes of a small corporate squeal.

Official figures in the past week have shown that raw materials prices are rising but retail prices are not. Caught in the middle are manufacturers which face the same unenviable choice confronting retailers: can they carry on as before, planning to pass on price rises? Or must they knuckle under in a new business environment in which sale volumes, not profit margins, will distinguish winners from losers? The decisions manufacturers make will influence the inflation rate in coming months and signal whether the government has been successful in persuading industry to develop a low-inflation psyche.

The sums behind the dilemma facing companies are stark. Figures from the Central Statistical Office last week showed that the price of raw materials and fuel for manufacturers had risen by 0.8 per cent between May and June, and by 4.4 per cent since January. The main cause appears to be the worldwide surge in commodity prices.

Prices of goods leaving factory gates, by contrast, did not rise in June, and have risen by a mere 0.8 per cent since January.

Survey evidence suggests most companies expect the pinch to continue. A British Chambers of Commerce survey on Thursday is expected to list input costs as the biggest business worry. But a recent Confederation of British Industry manufacturing survey showed that 79 per cent of manufacturers expected prices to remain flat, or fall, over the next four months. This is in spite of a pick-up in retail sales, as shown in today's CBI distributive trades survey.

The main reasons manufacturers have decided not to increase output prices are competition from overseas and the continuing price sensitivity of consumers. A Gallup survey last week showed April's tax rises had not significantly dented consumer confidence, but it is well below pre-recession levels.

Consequently, as Ms Kate Barker, chief economist with the CBI, says: "Companies are not getting margin growth that everyone thought we would this year. Unit labour costs and commodity prices are clearly less favourable than last year."

But as she points out, input prices represent only a small part of the business balance sheet. Commodities, for instance, are estimated to account for about 5 per cent of overall manufacturing costs, whereas labour accounts for up to 40 per cent. At the same time, as Mr Ian Shepherdson, economist at brokers Midland Global Markets points out, profit margins are still at a high level compared with the past 15 years. He estimates manufacturers' margins – defined as the proportion of final prices accounted for by profit – were just under 22 per cent last month.

Some economists believe this means that many companies can hold prices down. As Mr Robin Aspinall of broker Panmure Gordon argues: "UK companies have had a pretty easy time of it so far. Demand has been picking up, they have trimmed costs, and so you have seen big profit growth."

But others are voicing concern about specific sectors. Economists at brokers Kleinwort Benson, for example, say they are warning their customers to avoid companies dependent on commodities, such as metals, because of the fears of a price squeeze on profits.

The problem, though, is that the trail of products in the metal industry – from iron ore through metal package manufacturer to a can of baked beans on a supermarket shelf – shows margins under pressure in some areas, but not others.

British Steel, for example, says that its raw materials – principally coal and iron ore – have, if anything, become cheaper in recent months, partly because most are priced in dollars, a currency down 5.7 per cent in value against sterling since January.

But British Steel has apparently decided that the market can withstand a price hike, after what it describes as "a disastrous fall in steel prices in 1990" that reduced average prices by 20 per cent. British Steel product prices have risen by an average of about 13 per cent since January.

British Steel's customers are unhappy about this. For example, the cost of tin-plate, made by British Steel and sold to packaging makers such as Carnaud Metal Box, the Anglo-French group, and France's Pechiney has risen this year by 8 per cent, says the UK Metal Packaging Manufacturers Association. Mr Robin Davis, the association's director, says: "Continental tin-plate suppliers also raised their prices by about 8 per cent this year and our members are not finding it possible to pass on that increase in total."

The main reason manufacturers cannot pass it all on, he says, is the heavy competition in international packaging. Consequently, tin can prices have risen by only about 5 per cent this year, says Mr John Nichols, managing director of HL foods, a subsidiary of the Hillsdown food manufacturing company.

Similarly, the buyers of cans – the food "packer-fillers", such as Hillsdown – have not been able to pass on all of their increased costs. "Can prices have gone up, bean prices have gone up, but our prices have not yet gone up," says Mr Nichols. He says cheap imports of canned foods and supermarket price wars have all acted to constrain the prices his company charges.

But if the steel products manufacturing chain provides some evidence that a crunch on profit margins has begun in parts of the manufacturing chain, the picture is not as clear in other sectors, such as oil-based products.

The oil price has risen by about 20 per cent in sterling terms since the beginning of this year, leading to similar rises in the price of the main raw materials for the chemicals and plastics industries.

German chemicals company BASF, which has plants in the UK and continental Europe, says raw material prices are rising faster than output prices, particularly for naphtha, used to make ethylene and some plastics, cyclohexane, used in fibre manufacture, and methanol, a raw material for glues.

But Mr David Glass, of specialist chemicals industry consultancy Chem Systems, says these rises are not hitting the profitability of the chemical industry, because demand is leading to rising volumes. In a capital-intensive industry such as chemicals, the cost of producing an extra tonne is low once a plant is constructed and running.

"The chemicals industry is highly geared to volume, which is improving margins in spite of the fact that naphtha prices have risen so much," says Mr Glass.

In fact, the chemicals industry is having to rely on volume growth to preserve profits, because customers are unwilling to pay more. Mr Stuart Wallis, chief executive of Bowater Packaging, a big plastics user, says: "We are big enough to say to our suppliers that, until we can raise our own prices, we will not pay more."

Not all companies are big enough to gain from economies of scale and bargaining muscle. As Mr Richard Brown, deputy director of the British Chamber of Commerce, points out, smaller manufacturers often suffer more than the largest groups.

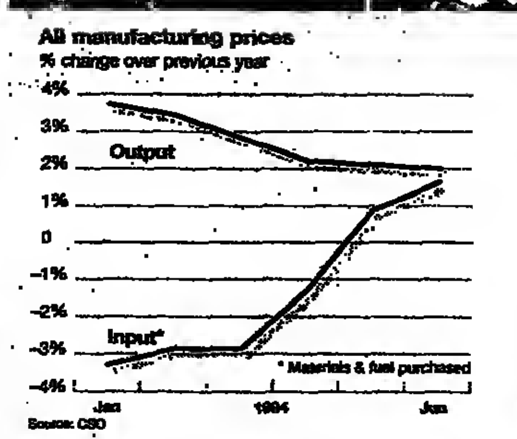
The message from the government and many economists is that, with inflation low, manufacturers large and small must learn to thrive without relying on price rises.

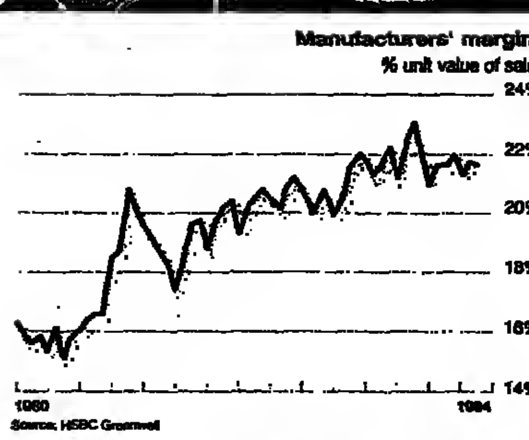
To a large extent, that adjustment has been taking place for some time. Treasury figures show that the gap between the trend growth rate of input and output prices has been narrowing steadily over the past 20 years.

But as Mr Eddie George, governor of the Bank of England, admitted last November, adjusting to lower prices and smaller profit margins will not be easy. Many businesses are still looking for returns more suited to a high-inflation era, he argued. These expectations needed to be reduced if Britain was to sustain a low-inflation economic recovery, he insisted.

At the time, his comments piqued some manufacturers. But rising raw materials prices are forcing businesses to think again. The next few months will reveal the choice made by industrialists, and the effects of that choice on UK industrial health.

UK manufacturing: the big squeeze





Exports must drive UK recovery

PERSONAL VIEW

Today's new evidence that consumer spending is continuing to grow, in the June Confederation of British Industry distributive trades survey, will be welcomed as a further sign that the recovery remains on course. But in front of every silver lining sits a cloud. How long can a consumer-led recovery proceed, before the authorities take fright at the inflationary risk and seek to dampen it down with an interest rate rise?

The latest official sales figures show volumes up by 4 per cent on a year ago. And the survey published today shows that sales grew more strongly in the year to June, after a slight slowdown in the annual rate of increase in the early part of this year.

Retailers report that sales growth is back on the improving trend seen in the second half of last year. And they are optimistic abont the future, expecting the pace of recovery to be maintained.

Of course there are some sectoral differences. The strongest improvements in trade are reported by off-licences, shoe shops and furniture stores. Booksellers and stationers are doing well, too, though hardware and do-it-yourself retailers report falling volumes compared with a year ago.

On these hot summer weekends we are sitting at home in a new chair with a can of beer and a good book, leaving the decorating to itself: the prime minister's image of a nation at ease with itself, perhaps.

The housing market remains in an uncertain condition, perhaps partly because there remain well in excess of 1m households with negative equity. The withdrawal of attractive fixed-rate mortgage offers has also set things back. But even there we sea some signs of a slightly improving trend, and of associated increases in sales of household durables and carpets.

The overall tone then, remains strong, stronger than many had predicted in advance of the large personal tax increases which began to take effect in April. Why have those increases had so little effect so far?

Partly, we think, because not all of the effect has yet been felt. The increases in National Insurance contributions, and the reduction in the value of mortgage interest relief, have clearly hit pay packets already. But the impact of 8 per cent VAT on fuel bills will not be fully appreciated until later in the year when fuel bills begin to rise in the cold weather and the full 17.5 per cent rate follows next April.

The overall tone remains stronger than many predicted in advance of the personal tax increases

Reductions in unemployment may also be helping to offset the tax rises. Unemployment has now declined by more than 270,000 over the past year, giving a larger than expected boost to personal disposal income. Downward movements in the savings ratio, as interest rates fell, bave also continued to boost consumption. And although consumer credit expansion has slowed a little in recent months the trend is a growth rate still higher than it was last year.

It is clear from all this evidence that consumer spending has been the main engine of recovery for the last two years. Given the poor international, especially European, background that was perhaps inevitable. But if the recovery is to be sustained, we need to be looking over the next 12 months for a greater contribution from investment, and from net trade.

So far, private sector investment has barely begun to pick up. Even now, the CBI's Industrial Trends Survey shows only slightly more manufacturers expect to increase investment in plant and machinery next year than to cut it. This is a somewhat disappointing picture after nine quarters of expansion. Public sector investment has not taken np the slack.

And, on the trade front, while the figures for transactions with the rest of the European Union are more than usually suspect, there are still no strong indications of a significant improvement in our trade balance.

Anecdotally, there are signs that improved business confidence may soon bring a boost in investment. That is what companies tell me as I travel the country. And the improving tone of the UK's leading markets in Europe is producing a more favourable trading environment than for some time.

But we need to see some more tangible results soon, or the authorities will surely take further action to dampen consumer spending and boost saving.

Our hope – and expectation – is thet the balance of recovery will shift towards investment and exports later this year, and that the Bank of England will not need to tighten policy sharply to stop consumer spending growth accelerating. But the next three months will be a crucial period, in which the shape of the recovery will be determined.

Howard Davies

The author is director-general of the Confederation of British Industry

OBSERVER

Brussels spout hacked off

■ Who'd be a British hack in Brussels? Things could turn a shade unpleasant, now that Belgian prime minister Jean-Luc Dehaene – vetoed by John Major as the man to succeed Jacques Delors as president of the European Commission – has publicly pinned the blame on an alleged British media conspiracy.

Dehaene told the Belgian newspaper *De Standaard* yesterday that "the British tabloid press turned me into a caricature".

Delors could have told him that, regrettable though it may be, such shabbiness went with the brief.

More intriguingly, Dehaene also wagged a finger at that supposedly objective institution, the BBC, which he accused of depicting Belgians as "some sort of European ayatollahs" when Belgium held the European Union's rotating presidency last year.

To imply today'a British media is somehow in cahoots with John Major does show remarkable imagination. Maybe Dehaene should have got the job, after all.

No thanks

■ What's this? A charity turning down donations?

Shared interest, the Newcastle-based organisation that lends money to disadvantaged groups in the Third World, is evidently a little particular about where its cash comes from.

Its international partner, the Ecumenical Development Co-operative Society, was recently offered a $10m interest-free loan, as well as a $450,000 grant to help its activities in eastern Europe.

But the offer came from the foundation set up by market speculator George Soros. Shared Interest voted against accepting the donation out of moral disapproval of the way Soros profited from the plunging pound on "Black Wednesday" in 1992.

Being black-balled is probably a novel experience for Soros. Still, the path to sainthood has never been easy.

Rich pickings

■ It has its problems, but Mexico still spawns dollar billionaires, according to Forbes magazine, which reckons there are now 24 Mexican billionaires, against 13 last year and just two in 1991.

Topping the list, weighing in at an estimated $6.6bn, is Carlos Slim Helú, head of the national telephone company. He's closely followed by Emilio Azcarraga, $5.4bn, chairman of the principal television network.

Not far behind is the Zambrano family – $3.1bn – which controls Cemex, Mexico's main cement company, followed by a new entry, the Peraltas – $2.5bn – who hava just sold a chunk of their cellular phone business.

Forbes' annual rich list is not universally adored; some of its Mexican members believe it saves Mexico's kidnappers from doing their own research.

One irate member describes it as "total stupidity". Not that he was afraid, he added – the bandits would be far better informed than Forbes.

Piltdown purse

■ And now, a word of warning to all those hapless European parents who have only just got around to junking Mutant Ninja Turtle, Batman, Jurassic Park (etc) T-shirts, pencil cases, underwear and so on, accumulated by their children from bygone ages. Go into hibernation now – the Flintstones are coming.

The whole world – apart from Ulan Bator maybe – is about to be swamped with Flintstones' merchandising, coinciding with the release of a film based on the cartoon caveman characters. Turner Home Entertainment owns the rights; and wild pterodactyls won't stop the onward march towards merchandising sales estimated at £640m.

And the profits? Prehistoric, by some US corporate standards.

Eggshausting

■ Don't talk about roast chicken in Japan; it's something of a problem right now.

Some southern parts of the country are experiencing the driest, hottest summer for 20 years. Very nice for tourists perhaps, but tough on chickens.

In the past three weeks, some 110,000 chickens have expired on poultry farms in Tokushima, a southern state where 6.4m, or about 5 per cent of Japan's chicken population live.

The problem is the heat. Last week, local temperatures reached 38.4 degrees Celsius – 109 Fahrenheit – the highest since records started in 1929.

If you can't stand the heat, get out of the kitchen. Though hardly a useful motto for chickens.

Count on me

■ Ignoring the fact that nature helpfully provided most people with 10 fingers, the London Stock Exchange tried to smooth the way to 10-day rolling settlement yesterday. It sent out an abacus to a select few investors.

The gift – featuring black plastic beads on a steel frame – went to those in City firms who were involved in planning rolling settlement.

Of course, merely a bauble; no suggestion that some types actually need aids to tot up their takings – or otherwise.

Tea interval

■ A recent FT report on Everton football club obviously touched a sore spot. The item suggested the club betrayed a mean streak by not offering shareholders even a cup of tea at its annual general meeting.

Now it's not just tea, but gin 'n T. At last week's shareholders meeting – to discuss the club's rights issue – chairman David Marsh said the Goodison Park bar would be open afterwards for free drinks "as a result of adverse publicity in the Financial Times".

If only other bars were so easily prised open . . .

FINANCIAL TIMES
Tuesday July 19 1994

Israel-Jordan talks fuel hopes for Mideast peace

By James Whittington and Julian Ozanne on the Israeli-Jordanian border

"The Arab-Israeli conflict, one of the most longstanding and most intractable conflicts of this entire century, is drawing to an end," Mr Warren Christopher, US secretary of state, said triumphantly yesterday after he met Israeli leaders on the first day of a Middle East shuttle.

Mr Christopher's optimism reflected the rapid pace of the Middle East peace process as Israel and Jordan opened their first talks in the region yesterday, marking the beginning of a week of intense US-Arab-Israeli diplomatic activity.

The Israel-Jordan negotiations came as Israeli and Palestinian delegates opened a new round of talks in Cairo and Mr Christopher arrived in the region for meetings with the leaders of Israel, Jordan, Syria and Egypt. Mr Christopher will shuttle among Middle East capitals seeking to further the Israeli-Syrian peace process, start talks on economic co-operation and regional integration and prepare for next Monday's summit in Washington between King Hussein of Jordan and Mr Yitzhak Rabin, Israeli prime minister.

The optimism may prove to be misplaced in a region that has often defied prediction and has been in a state of war for almost half a century.

However, Jordanian and Israeli delegates who opened talks in a tent in the Arava desert yesterday said they had had a "very fruitful" day and expected to announce results today, particularly on one of the key issues – demarcation of the disputed border.

Both sides said there were difficult obstacles to overcome but said they were determined to reach solutions to the other two issues – water resources and security – and finalise them in a treaty of peace. "The prospects for peace are good," said Mr Elyakim Rubinstein, head of the Israeli delegation.

The bilateral talks conclude tomorrow and the process moves to the Jordanian side of the Dead Sea where Israel, Jordan and the US are to discuss economic projects such as regional tourism, connecting electricity grids and perhaps a transnational oil and gas pipeline. The US, expected to fund many of these projects, is considering paving a road between Israel and Jordan via Eilat.

Mr Shimon Peres, Israeli foreign minister, who tomorrow will become the highest Israeli official ever to visit Jordan publicly, said yesterday: "The main point is this peace will create unprecedented economic opportunities."

Mr Peres also said Israel and the Palestinians were determined to press ahead with peace efforts despite Sunday's bloody clashes in the Gaza Strip. "There's always a place for fear and there's always a place for regret but that won't take away the necessity to go forward," he told Israel radio.

Desert tribes bury ancient hatchet in the sand, Page 4

Hymn for Mao hypes TV sets to the masses

By Our Beijing Correspondent

A Chinese Communist party hymn written in honour of Chairman Mao Zedong has been reborn as an advertising jingle glorifying a television set.

The song, rendered reverently throughout China after the Cultural Revolution, begins: "The sun is reddest, Chairman Mao is dearest." But, in a national television campaign, this has become: "The sun is reddest, Long Rainbow is newest."

The shock to Chinese ears of recycling the revolutionary in the name of commerce can hardly be imagined. Mr Wang Xiren, a navy propaganda writer who penned the original lyrics soon after Mao's death in 1976, said yesterday he would protest at the commercialisation of his song. He wants the advertisement banned. "This distortion is irresponsible," he said. "It shows disrespect to the broad masses."

Mr Wang's song is famous among Chinese youth as well as those old enough to remember life under Mao. Three years ago, it was featured on a new cassette of Mao music, played on modern western instruments with the addition of a funky beat.

Television viewers, nevertheless, are wondering who would dare tamper with the once sacred words, and how they could get the jingle past the censors.

The answer is hardly surprising in the emerging business culture of modern China: the People's Liberation Army. Long Rainbow is owned by the PLA's commercial arm, Norinco, and the factory, at Mianyang city in Sichuan province, is a converted military plant and uses Japanese technology under licence.

Ironically, the Long Rainbow plant came into existence because of one of Chairman Mao's follies. In the late 1950s, he ordered that industries be relocated to the interior from areas vulnerable to attack during a war that never happened.

China is trying to revive many of these isolated enterprises by upgrading their technology and turning military equipment factories to civilian uses. Long Rainbow is one of the more successful examples of this policy.

Rwandan rebels name Hutu president in peace gesture

By Leslie Crawford in Nairobi

Tutsi rebels of the Rwanda Patriotic Front yesterday named a Hutu, Mr Pasteur Bizimungu, as president of what they say will be a broad-based government of national unity, in an apparent attempt to reassure Rwanda's Hutu majority that they have nothing to fear under the new regime.

The RPF is due to install a new government in the capital Kigali today as the remnants of the old Hutu government and army joined the mass Hutu exodus into Zaire.

As a long-time member of the RPF, however, Mr Bizimungu is not expected to inspire confidence among supporters of the late Hutu president, Gen Juvenal Habyarimana.

The new prime minister, Mr Faustin Twagiramungu, is also a Hutu, but real power will almost certainly remain in the hands of Gen Paul Kagame, the military commander who formed an army of Tutsi exiles in 1990 to fight the Habyarimana dictatorship.

The RPF is understood to be offering government posts to members of the old ruling party who were not implicated in the genocide of Rwanda's Tutsi population following the assassination of Gen Habyarimana in April.

The new government's chances of receiving international recognition are high, particularly since a special UN reporter on human rights identified the former government as having been involved in directing the massacre of hundreds of thousands of Tutsis.

The US has given representatives of the old government five days to leave Rwanda. Their bank accounts have been frozen. Moves are also afoot in the UN to expel the Rwandan representative on the Security Council.

"The UN will have little choice but to deal with the new government," Ms Alison Desfoges, a consultant with Human Rights Watch Africa, the US-based human rights group, said yesterday. "But the international community will also be in a strong position to exert leverage over the RPF, as the new government will be heavily aid-dependent."

France's position will be critical to the success of the new regime. Its military intervention in Rwanda came too late to save Tutsi lives, and now not even the "civilian safe havens" established by French troops in the south-west of the country have been able to stem the flight of the Hutu population into Zaire.

The retreating Hutu army is, however, sheltering behind French lines, and there are signs that the French are uncomfortable protecting perpetrators of genocide.

THE LEX COLUMN

Gas mask slips

What is British Gas up to? In its public statements, the company says it wants the government to press ahead with legislation this autumn to open up the domestic gas market to competition. But at the same time, Gas is planning to "rebalance" its prices to bring them in line with costs – a phrase that conjures up the idea of higher gas bills for little old ladies. The government is already dithering about whether to abolish Gas's domestic monopoly. Hints about higher bills could be all that is needed to scupper legislation.

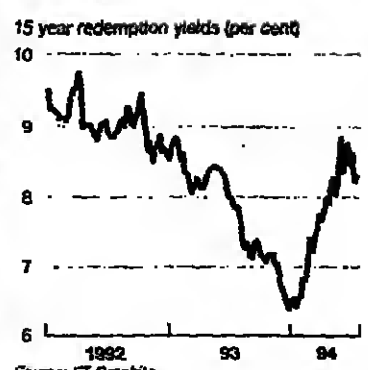
The Machiavellian interpretation is that this is precisely what Gas is after. If so, it is being foolish. So long as Gas retains its monopoly, it will face tight regulation. Thecompany may feel the current regulatory burden is suffocating, but matters could get worse under a Labour government. Gas should, by contrast, embrace competition and use its advent as a spur to change the organisation's still rather moribund culture. Since Gas is gradually getting this message, a Machiavellian interpretation of its latest moves seems unlikely. The more plausible explanation is that the company has yet to craft a new and internally-coherent public image.

This is not to suggest that Gas has nothing to fear from the abolition of its monopoly. Although its regulator has promised to create a level playing-field, until the rules are set in stone there remains the possibility that rivals could "cherry-pick" its most attractive customers. But the best way to protect itself from such an eventuality would be to fight for fair competition rather than to scare the politicians.

FT-SE Index: 3082.0 (+7.2)

UK Gilts

15 year redemption yields (per cent)



Source: FT Graphite

Microsoft

Microsoft has escaped the nightmare of being broken up. But its weekend deal with the US Justice Department and the European Commission is more than a slap on the wrist. To avoid a lengthy court battle over claims that it behaved anti-competitively, the software giant has had to accept restrictions on the way it conducts its business. While the detailed terms certainly do not spell an immediate end to its near-monopoly in supplying personal computer operating systems, rivals should find it easier to penetrate the market.

Even more serious is the risk that close monitoring by the competition authorities for the next six and a half years will cramp Microsoft's style. One of the secrets of the group's success has been an aggressive no-hostages-taken approach to competitors. It may now feel it has to tone down this aggression.

Mr Bill Gates, Microsoft's founder, was playing down such risks yesterday. According to him, the deal eliminates the possible distraction of a court case and allows the company to focus on devising new products. Certainly, Microsoft's main challenge will be in the marketplace. Computer technology is advancing at such a pace that the group will need to innovate to retain its dominance in desktop operating systems. As Microsoft seeks to establish itself in other segments of the software market such as networking and multimedia, the need for innovation will be even greater.

UK economy

Since the UK economy has survived April's tax increases better than expected, it stands to reason that the impact would be felt on government finances. The gratifying feature of the first quarter of the current financial year is the buoyancy of revenues: Inland Revenue receipts are up 9 per cent, those from Customs and Excise 7 per cent. Since low inflation has also helped keep spending under control, the PSBR for the full year could turn out lower than the government's current forecast of £36bn.

This is reassuring for a bond market which has been inclined to worry about oversupply. The ease with which the market absorbed last week's £800m tap is testimony to the renewed international appetite for gilts. So is the Bank of England's decision to auction conventional stock this month, even if the expected 2010 maturity only just falls within the definition of long. By comparison with other countries, such as Italy of which more below, UK government finances are starting to look in good order.

There is no guarantee yet, though, that the gilts market can simply resume its bull run. Yields have already fallen some 90 basis points from their recent peak and there is always the risk of a weak dollar triggering further international upset. Above all, cyclical improvement in the PSBR does not mean the structural problem is solved. The market would still look askance if the authorities used the opportunity to ease up on spending or yielded to pressure for tax cuts.

Italy

Before Mr Silvio Berlusconi rode on to the political stage promising radical change, investors used to fret about Italy's political volatility and its public debt-GDP ratio – the second highest in the industrialised world. Three months later, those same worries are re-emerging.

There now appears a real risk that the coalition government will unravel. Given the unpopularity of his current stance, it is not certain that Mr Berlusconi would profit from any ensuing elections. The Comit index yesterday dropped 3 per cent on the uncertainty. The currency and bond markets shuddered too.

The markets seem likely to continue punishing Italy until the political uncertainty is resolved. A convincing plan for correcting the budget deficit is also needed. The worry is that a strong political will is essential to make inroads intu the 1995 deficit given the need for structural reforms to pension and health spending. The task grows harder as the yield spread of Italian bonds over bunds widens. It is now 415 basis points, making the deficit ever costlier to finance.

Italy's underlying economy is recovering well. Inflation has fallen to its lowest level for 25 years. The weak dollar will help ensure Italian inflation remains suppressed while the strong D-Mark makes Italian exports all the mora competitive. The economy is forecast to grow at about 2.5 per cent next year promising a strong rebound in corporate earnings. Mr Berlusconi must make sure that, after Italy's promising build-up, he does not shoot the gains over the bar.

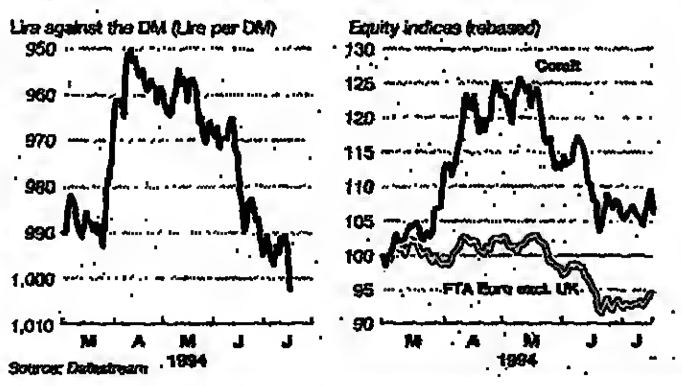
Rift in Italy's coalition hits markets

Contined from Page 1

atmosphere yesterday. The League said that it would today ask a parliamentary commission for the decree on the custody of corruption suspects to be withdrawn.

This tension will continue to worry the markets, analysts say. Mr Paolo Azzoni, a Milan stockbroker, yesterday described the situation as dangerous. Foreign investors with positions in Italian stocks were liquidating them and Mr Azzoni said that markets need a clear sign that the split in government has been resolved.

Italy



Source: Datastream

Bank probe

Continued from Page 1

its attempt to improve controls in the group. More recently, it has uncovered "discrepancies in expense claims".

It said that reasons given for the expenses "included gifts to individuals in certain countries to facilitate business, a practice contrary to bank rules and procedures".

The bank has not proved that the specific gifts were passed on to the alleged recipients or that the expenses were genuinely incurred, but the investigation is continuing.

FT WEATHER GUIDE

Europe today

The warmest air will retreat south of the Alps as a result of a strengthening ridge of high pressure over the western part of the continent. However, it will be sunny with comfortable temperatures in Denmark, Germany, and the Benelux.

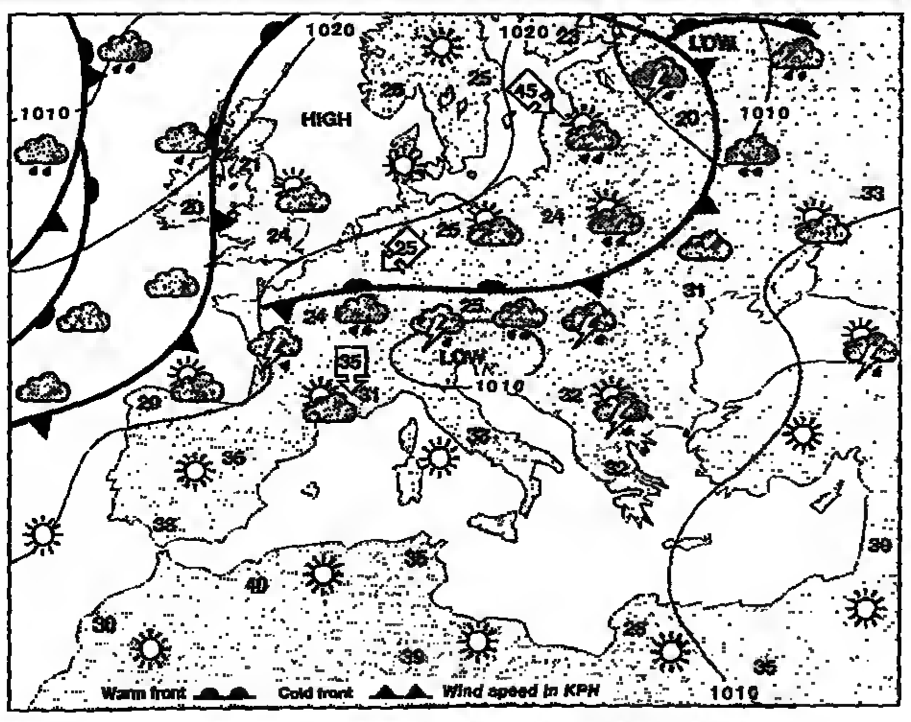
The British Isles will be sunny, but Ireland and Scotland will have cloud with light rain or drizzle.

Heaviest rain will fall in the Alps, where there will be thunder storms and torrential rain at times. The Balkans will also have thunder showers.

Scandinavia will be sunny, dry and warm, but Finland will remain cloudy with occasional showers.

Five-day forecast

Sunny and tranquil summer weather will persist over southern Scandinavia, Germany, and the Benelux. France will have plenty of sunshine, but thunder showers may occur at the weekend The Mediterranean will remain sunny and hot, but cooling thunder showers are expected around the Adriatic.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Beijing	fair	34	Caracas	cloudy	27	Faro	sun	31	Madrid	sun	35	Rangoon	drzzl	29
	Celsius		Belfast	cloudy	21	Cardiff	cloudy	22	Frankfurt	fair	28	Majorca	sun	32	Reykjavik	rain	15
Abu Dhabi	sun	38	Belgrade	fair	33	Casablanca	sun	30	Geneva	thund	25	Malta	sun	33	Rio	fair	28
Accra	cloudy	29	Berlin	sun	25	Chicago	thund	35	Gibraltar	sun	34	Manchester	fair	21	Rome	sun	31
Algiers	sun	35	Bermuda	fair	32	Cologne	fair	25	Glasgow	fair	22	Manila	thund	29	S. Frsco	fair	20
Amsterdam	fair	24	Bogota	cloudy	19	Dakar	fair	30	Hamburg	sun	25	Melbourne	shower	13	Seoul	fair	33
Athens	sun	33	Bombay	shower	31	Dallas	sun	39	Helsinki	shower	22	Mexico City	cloudy	19	Singapore	cloudy	32
Atlanta	thund	32	Brussels	fair	25	Delhi	shower	36	Hong Kong	thund	30	Miami	thund	32	Stockholm	fair	25
B. Aires	drzzl	22	Budapest	fair	29	Dubai	sun	40	Honolulu	shower	32	Milan	fair	30	Strasbourg	thund	25
B.ham	fair	23	C.hagen	sun	26	Dublin	cloudy	21	Istanbul	sun	30	Montreal	fair	26	Sydney	fair	17
Bangkok	rain	33	Cairo	sun	35	Dubrovnik	sun	32	Jakarta	cloudy	32	Moscow	shower	22	Tangier	sun	32
Barcelona	sun	29	Cape Town	fair	16	Edinburgh	fair	21	Jersey	fair	22	Munich	thund	22	Tel Aviv	sun	31
									Karachi	fair	34	Nairobi	fair	26	Tokyo	fair	31
									Kuwait	sun	45	Naples	sun	32	Toronto	sun	29
									L. Angeles	fair	25	Nassau	sun	32	Vancouver	sun	27
									Las Palmas	fair	28	New York	fair	32	Venice	fair	30
									Lima	cloudy	19	Nice	fair	28	Vienna	cloudy	25
									Lisbon	sun	31	Nicosia	sun	38	Warsaw	fair	24
									London	fair	25	Oslo	sun	27	Washington	thund	33
									Lux.bourg	thund	24	Paris	fair	24	Wellington	shower	9
									Lyon	thund	26	Perth	fair	23	Winnipeg	rain	21
									Madeira	fair	25	Prague	fair	24	Zurich	thund	22

FINANCIAL TIMES
COMPANIES & MARKETS
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IN BRIEF

Time Warner cuts losses to $23m

Time Warner has reported a $23m second-quarter net loss, down from the $88m loss of a year ago. The US entertainment group benefited from record earnings in its publishing, music, films and cable television programming businesses. Page 20

Ruthless reversal at Kugelfischer
FAG Kugelfischer claims that the severity and speed of its recent restructuring are without parallel in Germany. Two years ago, the ball-bearings group, was heading for bankruptcy. Now it is predicting a small profit for the current year after halving its workforce and debts, and shrinking turnover by 13 per cent. Page 18

Santa Fe strikes it big
Santa Fe Pacific Gold Corporation was virtually unknown to international investors a year ago but it is now the sixth-largest producer of primary gold in North America. Page 19

Lac board snubs takeover bid
Shareholders in Lac Minerals of Toronto have been advised by the company's board to reject a C$2bn (US$1.45bn) takeover bid from Royal Oak Mines of Vancouver. Lac described the offer as inadequate and opportunistic but the rationale behind the bid has already won support from several large Lac shareholders. Page 20

Anti-clot drug helps Genentech
Genentech, the US biotechnology company, has recorded a threefold jump in post-tax profits in the second quarter. Product sales rose by more than a third spurred by a 32 per cent rise in Activase, a drug that prevents blood clots. Page 20

Strong gains for American Barrick
Gold output has risen 24 per cent at American Barrick Resources during the North American group's first half. The company, which is expanding internationally, posted strong profit gains for the first half and second quarter. Page 20

Wellman pays £46m for FKI units
Wellman, the specialist engineering group, is buying three businesses from FKI, the electrical engineering and components group in a £46m ($71.6m) expansion. The deal is funded partly by a £32m placing and open offer. Page 23

Acquisitions boost WMI profit
Waste Management International, the UK-listed arm of WMX Technologies of the US, has lifted its second-quarter profit by 17.5 per cent before tax. The advance was underpinned by volume growth and acquisitions. Page 23

Zeneca poised for growth in China
Zeneca is positioning itself for a fairly rapid expansion in China. The UK agrochemicals and pharmaceuticals group, is investing $100m in the country over the next five years. It aims to "treat each market as a domestic market and develop from within," says chief executive David Barnes. Page 23

Buoyant start for 3i
Shares in 3i jumped 20½p to 292½p on their first day of trading. The flotation was one of the UK's largest share offers this year. Page 23

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Heidelb Zem	1210	+	14
Volkswagen	488	+	12.2
Falls			
Altana	588	-	12
Asko	1020	-	11
Leifheit	690	-	10
Linde	923	-	12
NEW YORK ($)			
Rises			
Circus Circus	28	+	¾
Genus Technology	22¾	+	1⅛
Microsoft	50¼	+	1⅛
Rollerblade	55	+	¾
Upjohn	30¾	+	¾
Falls			
US West	40¼	-	1⅛
New York prices at 12.30pm.			
PARIS (FFr)			
Rises			
Canal Plus	918	+	40
Credit Foncier	565	+	40
Credit Local	415.5	+	28.5
Dollfus Mieg	458	+	27
Unibail	585	+	29
Falls			
Geophysique	547	-	21
TOKYO (Yen)			
Rises			
Kikusui Sangyo	756	+	45
Misawa Resort	1250	+	110
Nippon Shindo	445	+	30
Yamagata Bank	984	+	34
Falls			
Fanuc	4190	-	300
Unitika	375	-	15
LONDON (Pence)			
Rises			
BBD Securities	118	+	5
British Borneo	215	+	8
Division Group	133	+	28
Eidos	350	+	20
Evans Halshaw	454	+	11
Forte	230	+	9½
Guest	225	+	17
Jones Stroud	288	+	10
Leslie Wise	88	+	4
M & G Group	879	+	37
Mercury Asset	588	+	26
National Express	330	+	16
Pearson	660	+	22
Perpetual	1023	+	44
Standard	278	+	25
Tace (John)	79½	+	7½
Falls			
Bellwinvest	78	-	8
Boots	538	-	11
Hickson	180	-	7
OIS Intl	36	-	18
Sketchley	105	-	5

US banks easily beat expectations

By Richard Waters in New York

Chase Manhattan and NationsBank, two of the US's biggest commercial banks, comfortably beat market forecasts with post-tax earnings gains of 32 per cent and 43 per cent respectively in the second quarter.

Both benefited from one-off factors, though the results also demonstrated stronger than expected underlying earnings growtb against the backdrop of rising US interest rates and turbulent financial markets.

At Chase, post-tax profits of $307m, or $1.46 a share, were up from $233m, or $1.20 a share, while NationsBank's net earnings rose to $437m, or $1.58, from $306m, or $1.20.

Chase reported a $55m gain on the sale of its Arizona bank, higber mortgage banking fees due to an acquisition and a fillip for trading income from an exchange of its Brazilian loans for bonds undar tba country's debt-reduction agreement. However, earnings growth was driven mainly by lower credit costs, higher fee incoms and an increase in net interest income, despite tighter margins.

Fee income jumped by $98m to $480m, with contributions from consumer and investment banking and the trust business. Trading income, though down $36m at $151m, held up in the face of difficult markets.

The provision for bad loans dropped to $150m, from $225m a year earlier.

Chase said it had substantially put its commercial property problems behind it: just 18 months after announcing plans to sell off $2bn of properties, only $45m remains.

NationsBank's earnings were boosted in part by takeovers. Noo-Interest income of $629m was 31 per cent higher than a year before, and would have riseo by only 7 per ceot had it not been for acquisitions.

Average loans during tbe period jumped 23 per cent to $92.6bn, with half of the growth coming from increased loan demand and the rest from takeovers. The bank's oet ioterest margin remained largely unchanged at 4.15 per ceot.

The earnings advances lifted return on equity at Chase to 16.1 per cent, from 15 per cent a year before, and at NationsBank to 17 per cent, from 14.7 per cent.

First-half net income rose to $671m from $386m at Chase, and to $854m from $587m at NationsBank.

Tracy Corrigan reports on rising funding costs and falling investment values

Treasurers battle with the double whammy

The reversal in the interest rate cycle and resulting turmoil in the bond markets this year has hit corporate treasurers witb a double whammy, as funding costs rise and the value of investments falls.

In recent years, many companies have raised fixad-rate finance but swapped the proceeds into variable-rate debt. Whan interest rates rise, these swaps are likely to become costly.

At the same time, companies with large amounts of cash to invest may also have been hit by the fall in bond prices. Glaxo's £100m ($156m) loss – mainly on structured bonds and collateralised mortgage obligations – has focused corporate treasurers' attention on the potential risks in their investment portfolios.

Like the losses on derivatives incurred by companies such as Procter & Gamble and Metallgesellschaft, the lesson seems to be that unless controls, on both the investment and liability sides of the business, are tightly drafted and strictly enforced, there is no guarantee that individual traders will act responsibly or that risk will be managed effectively.

"Our philosophy is to have a floating-rate portfolio, which will not substantially alter in value [as rates go up and down] since it might be needed by the company," said Mr Stephen Crompton, director of treasury at SmithKline Beecham. The Anglo-US healthcare group sold its investment portfolio before the acquisition of Diversified Pharmaceuticals Services in May.

The rapid reversal of interest rate trends this year has created an extremely difficult environment for corporate treasurers. "The violent reaction of US rates has made ns reconsider the balance of fixed versus floating rate," said Mr Doug Rees, financing director at Merck, the US pharmaceuticals group.

The company, which has outstanding commercial paper borrowings, would like to reduce the floating-rate component of its debt portfolio. However, because of the steepness of the yield curve in the US bond market, it is not o very attractive time to lock into longer-dated fixed-rate borrowings.

"It shouldn't be regarded as the treasurer's role to chop and change the interest rate profile of assets and liabilities around sbort-tarm considerations," argues Mr Derek Ross, partner in charge of treasury at Touche Ross. "That's the route to running into problems, on investment portfolios and on derivatives."

Glaxo is unlikely to be the only company to have suffered snbstantial investment losses. One pharmaceuticals and chemicals analyst knew of several European companies suffering from the effects of turmoil in the financial and currency markets.

"Obviously companies that are cash-rich and asset-rich are the hardest hit at a time when there is a spike upwards in interest rates," said one dealer at a large London-based corporate treasury.

Many companies are loath to discuss what their policies are, and many analysts are struggling to factor in potential losses made on investments this year. Further complicating such calculations is uncertainty about how fully companies with substantial US sales have hedged themselves against the decline in the dollar. "My experience is that most companies seem to give their treasury a lot more flexibility than I would expect them to," said Mr Archie Donaldson, a director of the MTM Partnership and former treasurer of ICI.

Mr Ross also thinks there is some room for companies to tighten up procedures. "The area where there is weakness is that very few companies have a clear strategy of what the mixture of fixed-rate and floating-rate liabilities should be for a minimum risk profile," he said.

The Association of Corporate Treasurers, of which Mr Ross is chairman, is preparing guidelines for companias dealing in the derivatives markets, which are likely to be similar to the Group of Thirty's recommendations for dealers published last year.

In some cases, the issue comes down to the conflict over how to run a treasury division, in particular, whether it should operate as a profit centre or a cost centre.

"If management puts the treasurer under pressure to achieve returns which are out of line with market rates, then inevitably a higher degree of risk will be assumed," Mr Ross believes. In some cases treasurers have a package which relates to their contribution to the business, and may encourage them to seek profits more aggressively, even if this involves greater risk.

However, Touche Ross recently completed a survey of 50 UK companies which showed that only 7 per ceot treated treasury as a profit centre, and only 10 per cent allowed companies to trade rather than just hedge positions.

For the derivatives specialists at investment banks, the problems of corporate treasurers have brought in some fresh business.

"There are plenty of corporate treasurers who got themselves into trades which started to look pretty ugly," said one investment banker. "Those who are running treasury operations as profit centres have had a good run in the last couple of years and had started to get more adventurous."

For example, he says that corporate treasurers wbo undertook "range" trades – taking the view that interest rates or currencies would remain within a certain designated range by entering swap transactions or buying structure ootes – found that instead of owning higher-yielding investments, they were left holding loss-making and often illiquid positions.

As for company treasurers, perhaps they will take comfort from the fact that those worst hit by the turmoil in the financial markets this year are banks and securities bouses, wbose first-half results bave shown more than a dent already.

Bank of Montreal seeks US expansion

By Bernard Simon in Toronto

Bank of Mootreal plans to expand its lovestment banking operations in the US and Canada with the acquisitioo of Burns Fry, a Torooto-based securities firm.

The bank, Canada's third largest, will pay up to C$403m (US$290m) in casb and shares for Burns Fry, which is 26 per cent owned by Sao Francisco-based Bank of America and 74 per cent by its employees. Bank of America will receive just over C$100m io cash.

Burns Fry, which has equity capital of C$200m, will merge with Nesbitt Thomson, Bank of Montreal's wbolly-owoed securities snbsidiory. The deol is expected to close before the end of August.

The merged firm, to be known as Nesbitt Burns, will employ about 3,700 and, along with RBC Domlnioo Securities aod Wood Gundy, will be ooe of Canada'a dominant securities dealers. All three are owned by banks, whicb were allowed to enter the securities business in 1987.

Tbe Nesbitt/Buros deal is expected to increase pressure on ScotiaMcLeod, a subsidiary of Bank of Nova Scotia, to expand tbrongh an acquisitioo or merger.

Nesbitt and Burns have several overlappiog businesses and outsiders predict a large number of lay-offs, altbougb Mr Brian Steck, Nesbitt chairman, said yesterday that rednndancies would be minimal.

Executives of both firms identified opportunities in the US as one of tbe main benefits of the merger.

Mr Steck said Nesbitt Burns would "aggressively" expand its research capability south of the border, build op an institutional salesforce based in Chicago and New York, and seek a retail securities base.

Bank of Montreal bas been the most active Canadiao bank in tbe US. It owns Harris Bankcorp of Chicago, and bas set a goal of earning 50 per cent of total income from US operations. The bank employs 160 people in its US investment banking division.

Under the deal, Burns Fry shareholders will receive C$283m in cash and stock exchangeable over four years into a maximum of about 5m Bank of Montreal shares.

Burns Fry sbarebolders can choose to receive up to C$30m of the casb payment in additional exchangeable stock.

Black businessmen propose R7bn Johannesburg listing

By Mark Suzman in Johannesburg

A group of black South African businessmen have announced plans to establish a R7bn ($1.91bn) company and list it on the Johannesburg Stock Exchange next month. If successful, the company will become the largest black-owned and run commercial enterprise in South Africa.

The new company will be built around Methold, to be renamed New Africa Investments Limited (Nail), a holding company under the control of Dr Nthato Motlana, a medical doctor by training who until recently served as President Nelson Mandela's personal physician, and several other prominent black businessmen.

Methold's main investment is a 10 per cent controlling stake in Metropolitan Life, South Africa's fifth biggest life insurance company.

Nail will be 51 per cent owned by Corporate Africa, an investment vehicle controlled by Dr Motlana and his partners. Other leading shareholders will include Afrikaner-controlled insurance giant Sankorp, the original owner of Metropolitan Life, with 20 per cent and trade union federation NACTU with 9 per cent. There will be no public share offering.

Before the listing, Methold will acquire a further 20 per cent of Metropolitan. This will increase its stake to 30 per cent, the largest part of the new company. Methold will also acquire 100 per cent of Prosper Africa, another company under the control of Dr Motlana, which has a controlling interest in The Sowetan, South Africa's largest daily paper, and a 7 per cent effective stake in MTN, one of the country's two main cellular phone providers.

To finance the transaction almost R500m has been raised from black business, pension funds, provident funds and foreign and domestic institutions including Morgan Stanley, the US merchant bank.

Dr Motlana will become executive chairman of the new group, which be hopes will lay the foundation for a significant black presence in the South African economy.

"Our mission is to encourage black economic advancement by promoting black-led partnerships with leading black businesses, to maximise black shareboldar wealth and ensure that black entrepreneurship is fostered," he said.

Other board membera will include Mr Enos Mabuza, a former "homeland" leader, Mr Jonty Sandler, a white businessman, and Mr Sam Motsuenyane, the founder of the National African Federated Chambers of Commerce. Dr Motlana and his partners are currently in the US promoting the venture.

Synergen drops its main product

By Daniel Green in London

Synergen, once a star of the US biotechnology industry, has stopped researching Antril, its biggest product, and announced a restructuring which could lead to the company's sale.

More than half of the group's 630 employees will lose their jobs as Synergen reverts to a business with no products in the pipeline for the medium term.

The company, based in Boulder, Colorado, had built a manufacturing plant for Antril. This will be closed and put up for sale. Selling the entire company was also a possibility, said Mr Greg Abbott, chief executive.

Synergen shares fell yesterday by $4 to $4⅞. They were at a peak of $66¼ in December 1992.

Antril, the company's main drug, was intended as a treatment for the complex and dangerous condition called sepsis. It is the lastest in a series of potential treatments to have failed and casts doubts on whether the condition can be successfully treated by any single drug.

Other companies researching similar sepsis treatments include UK biotechnology companies Celltech and British Biotechnology, Wallcome of tha UK and Japan's Fujisawa.

Mr James Noble, finance director of British Biotechnology, conceded yesterday that no one drug would ever be able to cure all sepsis patients.

Earlier this year, Californian biotechnology company Chiron abandoned its sapsis research programme. Other failures in recent years include Centocor and Xoma, whose share prices collapsed when, like Synergen, tbay abandoned research in Phase III development, the last and most expensive of the phases of clinical trials.

Synergen had disappointing results from it first round of Phase III trials in early 1993. Yesterday's announcement came after a second round of Phase III trials showed no clear improvement in prospects for patients with sepsis.

Genentech results, Page 20

Mexicans trim new issues to match tough conditions

By Ted Bardacke in Mexico City

Four Mexican companies have overcome difficult market conditions and placed equity offerings worth US$450m on international markets in the past two weeks, bringing to 20 the number of Mexican companies listed on the New York Stock Exchange.

The companies were forced to lower the number of shares offered and the selling prices. Brokers involved in the offerings say that concern about Mexican political stability and falling capital flows to emerging markets in general made their job difficult.

"The new issue environment is difficult in general and quite difficult for Mexican companies right now. You have to be very selective about how you go at investors and try to sell to those who know particular industries," says Mr Justin Mansen, co-ordinator of the offering of paper maker Grupo Industrial Durango for the US brokerage house Morgan Stanley. Durango was forced to lower its issue price by 14 per cent to raise $123m. An additional $150m was raised through a 7-year, 12 per cent Yankee bond issue, the first private Mexican company to use the market this year.

The other companies with successful equity offerings, mid-sized bank Banpais, real estate developer Grupo Sidek, and industrial conglomerate Grupo DESC, suffered price reductions of 21 per cent, 5 per cent and 10 per cent respectively. DESC also reduced the share offering by 44 per cent, while Sidek cut the number by 34 per cent.

Banpais, which needed the new capital to pay off expensive short-term debt, related to its recent purchase of insurance company Asemex from the Mexican government, was hit particularly bard as it was forced in borrow again to meet payment obligations.

Grupo Elektra, the bome furnishings chain, which bad substantial obligations related to its participation in the purchase of the privatised television network Television Azteca, was forced to cancel its planned equity offering when executives judged that potential investors were valuing the company too low.

Mr Kenneth Pryor Jones, the Sidek financa director, shrugged off the price reduction, saying the new capital raised was not as important as the Naw York listing itself. "When we securitise $200m in receivables this summer, just the fact that we are listed will enable us to offer those notes 50 basis points lower," he said.

Linotype-Hell reduces deficit to DM57m in first six months

Linotype-Hell, the German printing machinery manufacturer, said its net loss in the first six months narrowed to less than a quarter of the DM57m ($35.6m) loss a year earlier, AFX reports from Eschborn.

The group said the result was in line witb its aim of breaking even in the full year. Sales in the six months were on target while new orders exceeded expectations.

Linotype-Hell said more precise data on the company's performance in the first half would be published at the beginning of August. It said the next six months should see furtber improvement after the completion of its restructuring.

The group said the planned break-even in 1994 would be achieved on a "slight sales growth compared with last year".

The company's restructuring, initiated in 1993, was largely responsible for the narrower net loss in the first six months. In this period, Linotype-Hell's US operations saw the strongest improvement in earnings to post a net profit after a "significant loss" a year earlier, the company said.

While new orders from Japan and the UK saw "considerable growth rates... there is no sign of an economic upturn at bome". The company reported a 1993 net loss of DM153.4m after a net profit of DM32.1m in 1992.

Skandia agrees to sell US unit

By Christopher Brown-Humes in Stockholm

Skandia, tbe Swedish insurance group, said yesterday it had agreed in principle to sell Skandia Texas Group, its Texan direct non-life operation, to Omni Insurance Corp, a US company based in Atlanta, Georgia.

The move continues the Swedish company's efforts to disengage from direct non-life business in the US, where it is giving greater emphasis to reinsurance. It has sold two other direct non-life groups in the US over the last year.

Skandia said its Texan operations, which generate about $55m in annual premiums and were mainly focused on motor insurance lines, had not been profitable enough. It said there were no plans to divest its remaining US direct non-life businesses, located in Oregon and Florida.

Skandia said the Texan sale would have a marginally positive impact on its profit and loss account and balance sheet, but would not disclose precise terms.

Skandia America Reinsurance Group will continue to act as the main reinsurer of Skandia Texas Group.

Net profits improve 7% at French power group

By John Ridding in Paris

GEC Alsthom, tbe transport and power engineering company jointly owned by France's Alcatel Alsthom and GEC of the UK, yesterday announced a rise of 7 per cent in net profits for the year to the end of March, to Ecu329m ($279m) from Ecu308m.

The net result was achieved on stable sales of Ecu7.93bn and operating profits of Ecu640m, a rise of 15 per cent over 1992-93.

The company, which was formed five years ago, said it bad maintained its rate of growtb of new contracts, receiving orders worth Ecu9.32bn during the year. This took the year-end order book to a record Ecu17bn, GEC Alsthom said.

The figures for last year's orders do not incinde tbe $2.1bn contract to supply high-speed trains and related eqnipmant to Sonth Korea. The contract, which was signed in June, followed several years of negotiations and was won in the face of competition from a German consortium headed by Siemens.

Since tbe end of the last financial year, GEC Alsthom has expanded throngh the acquisition of a controlling stake in Linke-Hofmann-Busch, a German manufacturer of rail equipment. The acquisition, announced last month, is an important step into the German market, and strengthen's GEC Alsthom's presence in urban, suburban and inter-city rail equipment.

Dutch airlines to break record

Dntch airlines are expected to transport a record 3m holidaymakers this summer compared with 2.6m in 1992, charter company Transavia Airlines said, Reuter reports from Amsterdam.

Transavia, which is 80 per cent owned by KLM Royal Dutch Airlines, is market leader in holiday air travel to and from the Netherlands with a market share of 46 per cent.

Kugelfischer's ruthless survival route

The ball-bearings group says its shake-up is unparalleled, writes David Waller

Mr Peter-Jürgen Kreher, chief executive of the FAG Kugelfischer ball-bearings group, chuckles when he recalls giving a lecture to business school students about the principles of crisis management.

"They sat there with their mouths open as I explained that the most important thing was to do a daily check of your bank balance," be says. "You must always know whether you've got any cash – or whether you've gone broke."

Such nitty-gritty details tend to be overlooked in Germany's academically oriented business schools, Mr Kreher says. Had be not paid attention to the daily fluctuations in cash flow when he took over at Kugelfischer early last year, the group would not have survived.

As it is, Mr Kreher has implemented a restructuring plan which he claims is without parallel in the Federal Republic of Germany – in terms of the speed with which the plan was executed and the severity of the measures taken to turn the group round.

At the heart of the group's restructuring was the near-halving of the workforce – to 16,000 people at the beginning of 1994 from 31,000 a year earlier.

Debts were halved to DM1bn ($625m) from DM2bn and turnover shrunk 13 per cent to DM3.12bn from DM3.56bn, reflecting the sale of a clutch of subsidiaries identified as non-core businesses.

"We bave achieved something gigantic bere," Mr Kreher boasted recently. He predicted that the group, the second largest ball-bearings manufacturer in the world after Sweden's SKF, would make a small profit in the current year – a reversal from heavy losses and near bankruptcy at the end of 1992.

The precarious position was in part due to worldwide recession which led customers, especially car manufacturers, to cut back purchases of bearings. But Kugelfischer's problems were compounded by heavy indebtedness and the ill-fated acquisition of DKFL Deutsche Kugellagerfabrik, an east German bearings manufacturer which Kugelfischer bought in 1990.

In a microcosm of the problems of eastern German industry, DKFL suffered a large drop in sales as former markets in eastern Europe evaporated over 1991-92. When the deal was done in the heady days of German reunification the assumption was that sales would reach DM1.2bn a year – but turnover in the years after the acquisition was never more than a third of that level.

Recognising the gathering crisis Mr Fritz Schäfer, a descendant of Kugelfischer's founders who still owns a majority stake in the company, called in a well-known company doctor in December 1992. This was Mr Kajo Neukirchen, a former chief executive of the Hoesch steel group who was bauled in by Germany's big banks last December to sort out the mess at Metallgesellschaft, the metals, mining and industrial group which which came close in bankruptcy.

Mr Neukirchen became chairman of Kugelfischer's supervisory board, devising the ruthless blueprint for the company's survival. Mr Kreber, who was appointed chairman of the management board, put the plan into practice. Mr Kreher sums up the plan with a simple slogan: "focusing replaces diversification". Important measures included:

- The sale of all businesses which did not belong to the core activities: these were defined as rolling-bearing manufacturing, sewing technology and materials handling systems.

By January this year the group had sold 13 subsidiaries in sectors including hydraulic brakes, textile machinery accessories, metrology and industrial gauging and control systems, businesses which generated sales of DM720m in 1992. The quick-fire sales brought in DM740m and 5,200 jobs were shed in the process.

- in June last year, the group pulled out of its engagement in the Leipzig-based DKFL, putting the subsidiary into liquidation and shedding 1,800 jobs. What had been one of the biggest producers of bearings in the eastern bloc had lost about DM300m in 1992. The engagement cost Kugelfischer DM1bn in total, Mr Kreher says.
- Personnel reduction. On top of the jobs lost as a result of divestments, Kugelfischer has made 8,200 employees redundant and plans further cuts this year and next. The group has achieved annual net savings of about DM1bn as a result.
- Kugelfischer has cut costs further by using fewer materiols, cutting investment and stream-lining production. Management layers have been thinned and the number of product-lines made by the group has been slasbed to 25,000 from 320,000.

The net result of these measures was that Kugelfischer reported a sharp reduction in losses last year. At the parent company they were DM9.1m after DM630m in the previous year, although the losses would have been more substantial but for DM35m in extraordinary profits.

Kugelfischer's restructuring is symptomatic of the kind of rationalisation set in motion at dozens of big German companies during the recession. Among German companies with a stock market listing, analysts expect large increases in earnings for the current year as rationalisation takes effect.

Automotive operations chief quits BBA

By Tim Burt in London

BBA, the UK engineering and motor components group, yesterday said a senior manager was leaving the company over a fundamental disagreement with Mr Roberto Quarta, the chief executive recruited last year to conduct a root and branch restructuring.

In a move described by analysts as ruthless, Mr Peter Crawford, cbief executive of the group's automotive division, was told yesterday morning that Mr Quarta was taking over his responsibilities and that bis tier of management was being abolisbed.

Mr Quarta, wbo earlier this year announced plans for a dividend cut and 2,000 job losses, said Mr Crawford's departure was part of a review of group management. He did not rule out further job losses among senior executives.

The 44-year chief executive, who arrived from BTR last November with a mandate to revive BBA, said be had given management six months to respond to new objectives.

"I spelt out the aim to achieve double digit growth by 1996, and the automotive division was tbe key to tbat improvement," he added.

Profits in the automotive division fell 42.9 per cent to £21.5m ($32.6m) in the 12 months to December 31 last year, while its turnover of £574.1m against £621.1m represented 40.5 per cent of the group total.

Following that disappointing performance, Mr Quarta is said to have clasbed with Mr Crawford over strategy.

Mr Crawford is understood to have called for increased investment in product development in the hope that the division would exploit an upturn in motor manufacturing.

Mr Quarta was keen to cut the cost base in line with its shrinking turnover. "I decided it would be better off dealing directly with the businesses in automotive," he said. "I believe in short lines of communication."

Mr George Cartwright, chief executive of the friction materials business, and Mr Bob Gaunt, managing director responsible for power transmission systems, will now report directly to Mr Quarta.

Mr Crawford, who earned about £150,000 a year on a two-year rolling contract, was yesterday said to be discussing his severance terms.

Although he has been a director of the division and its predecessor Automotive Products for almost 10 years, sources close to the company said he was unlikely to receive the full £300,000 pay off.

Santa Fe Gold undergoes transformation

Kenneth Gooding reports on the changes which have promoted the US gold producer

Santa Fe Pacific Gold Corporation was virtually unknown to international investors a year ago. But since then it has emerged as the sixth-largest producer of primary gold in North America.

In addition, it has listed 14.6 per cent of the company on the New York Stock Exchange on terms which gave it a total value of nearly $2bn, and immediately became an important element in the new Financial Times Gold Mines Index.

Its parent, Santa Fe Pacific, the railways group, is to distribute the remaining 85.4 per cent of the gold company to shareholders on September 30.

From then on Santa Fe Gold will have no big controlling shareholder but its equity will be widely held in North America and Europe - about 7 per cent of the company was snapped up by European investors in the recent share sale.

Santa Fe Gold includes some of the assets Hanson, the Anglo-American conglomerate, acquired with Consolidated Gold Fields of the UK and swapped in June last year for Santa Fe's coal and aggregate operations.

That deal transformed Santa Fe Gold into a producer with an anticipated 1994 gold output of 900,000 troy ounces. It also has among the lowest costs in the world: $187 an ounce cash costs and $267 total costs in the last reported quarter. In North America only American Barrick, the Canadian group, has lower costs.

And, like American Barrick, Santa Fe Gold has one of the biggest gold reserves in North America, amounting to 14.1m ounces. However, these were estimated using a gold price of $400 an ounce, which some analysts feel was optimistic. With gold at $350, Santa Fe Gold's reserves fall to about 12.3m ounces.

Santa Fe Gold, with headquarters in Albuquerque, New Mexico, has about 1,500 non-unionised employees and three mines. These are: Twin Creeks (a combination of Hanson's Chimney Creek and Santa Fe's Rabbit Creek merged to produce the third-biggest primary gold mine in the US) and Lone Tree, both in northern Nevada, and Mesquite in southern California.

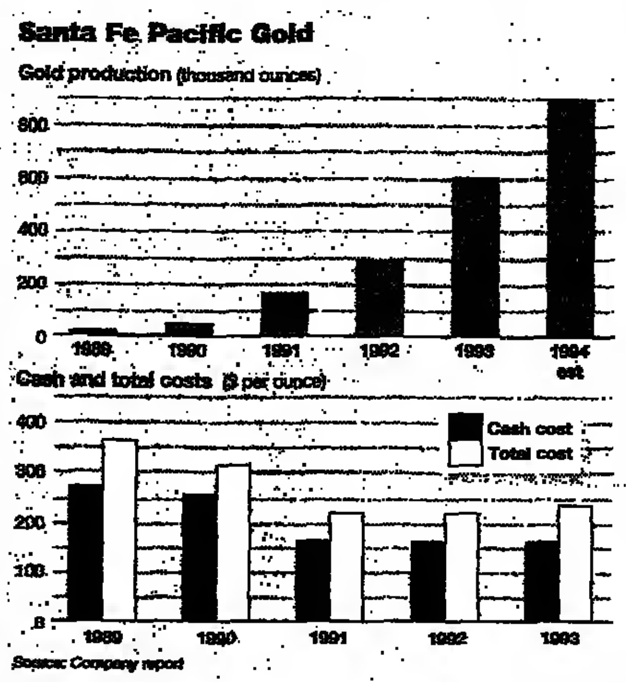
It is one of the biggest holders of mineral rights in the western US, controlling more than 6.8m acres of private mineral rights, including more than 1.8m acres in northern Nevada where most US gold is produced today.

Mr Dick Zitting, Santa Fe Gold chairman, recognises that investors in gold companies look for growth and measure that growth by ounces produced.

He can promise no immediate large increase and says output will be static for the next year or so. There are projects in the pipeline but it is taking longer to bring them into production - the permitting process in the US is now a long, drawn-out affair, he points out.

Santa Fe Gold intends to grow mainly by its own exploration efforts. Mr Zitting insists. Both the old-style Santa Fe Gold and Gold Fields had good exploration records and the merger produced an experienced exploration team of 140 people. "You get so much more added value when you find your own gold rather than buying it from someone else," he points out.

Nevertheless, "we recognise that to maintain output or grow we will have to make acquisitions".



Santa Fe spent $22m on exploration last year and will spend between $25m and $30m in each of 1994 and 1995. About 75 per cent will be spent in the US and the rest in other countries where the group is searching for gold, Canada, Mexico, Chile and Uruguay.

Mr Zitting says exploration efforts outside the US will gradually build until spending there accounts for about half the budget.

Santa Fe Gold has agreed a joint venture with Codelco, the state-owned Chilean group, on the Cerro Coya gold property near El Salvador. This project, high in the Andes next to Homestake's El Hueso mine, will be drilled when the spring weather comes to Chile.

Back in the US, Mr Zitting suggests Santa Fe Gold will by the year-end decide whether to go ahead with the Mule Canyon advanced exploration project, acquired in the Gold Fields exchange. This is 12 miles east of Battle Mountain, Nevada.

Last year Santa Fe Gold spent $11.3m developing its mines and this will rise to $12m in 1994. The 1994 capital budget is about $75m, including $14.2m to complete the Lone Tree mine expansion.

Since 1992 the company has spent $112m on this scheme, which enables it to extract gold from refractory (difficult) ores at Lone Tree. Most of the money went on an autoclave - similar to a huge pressure cooker - used to oxidise ore.

Mr Zitting says the autoclave, completed in February, is "going like a jewel" and already processing at 110 per cent of rated capacity. The project lifted Lone Tree's annual gold output to 200,000 ounces and increased the mine's life by nine years to 14 years.

Santa Fe Gold is now considering putting a similar autoclave into operation at the Twin Creeks mine at an estimated cost of $200m over two or three years.

Mr Zitting points out that Santa Fe Gold might not be able to recover up to 57 per cent of the reserves at Twin Creek without the autoclave so "it would have to be very harsh circumstances for us not to go ahead".

The $235m net proceeds of the recent share sale have been used primarily to repay Santa Fe Gold's debts. It was left with $22m cash. Pro forma accounts for 1993 show net income of $43.2m or 34 cents a share. The company produced 847,000 ounces of gold and sold 825,000 ounces at an average realised price of $377 an ounce.

A gold hedging programme enabled the company to do better than if it had sold its metal on the London Bullion Market where the average last year was $360. Hedging will continue, "when deemed appropriate", says Mr Zitting. At March 31 it had sold forward 646,000 ounces at an average price of $395 an ounce and also bought "put" and "call" options on another 127,500 ounces.

Mr Zitting says Santa Fe Gold's capital outlays this year can be covered from operations. And it intends to pay a regular dividend of 5 cents a share.

Daewoo plans Europe network

By John Burton in Seoul

South Korea's Daewoo group yesterday said it would establish next year an independent distribution network to market its cars in eight western European countries.

Daewoo Motor, South Korea's third-largest car producer, was prevented from selling its cars directly in Europe under its joint venture contract with General Motors of the US.

But under the terms of the agreement ending the partnership in 1992, Daewoo was granted the right to market its cars in Europe in 1995 and in the US in 1996.

Daewoo produced the Opel Kadett under licence for GM.

The car sales subsidiaries, to be managed by the group's trading company Daewoo Corporation, will be in the UK, Germany, France, Switzerland, Austria, Belgium, Luxembourg and the Netherlands.

Daewoo will be the first South Korean car manufacturer to establish an independent sales network in Europe. Hyundai and Kia, the country's first and second biggest car companies, sell their vehicles through local dealerships under contract.

IHL rejects A$133m takeover bid

By Bruce Jacques in Sydney

Directors of Independent Holdings (IHL), the Australian wholesaler, yesterday rejected the A$133m (US$97.7m) bid for the company launched on Friday by its rival Davids Holdings. The managing director of IHL, Mr John Patten, said he supported rationalisation in the industry, but the Davids bid was "grossly inadequate".

The bid, at A$4.25 cash a share, is the latest in a flurry of corporate activity in the fragmented and incestuous Australian grocery industry.

It follows last month's A$501m move on wholesaler Foodland Associated by New Zealand rival, Rank Commercial, and Australian retailer Coles Myer. The bid for Foodland, which controls 18 per cent of IHL, has been blocked in the Australian courts following intervention by the Trade Practices Commission.

The TPC intervened in the IHL bid at the weekend, extracting an undertaking from Davids that, if successful, it would sell IHL's 30 per cent interest in wholesaler Composite Buyers.

Opposition fails to halt Petron sale

By Jose Galang in Manila

The second stage of the Philippines' largest privatisation, a public offering of shares representing 20 per cent of oil-refiner Petron, got under way yesterday in spite of attempts in the Supreme Court by the government opposition to derail it.

Petron is the Philippines' largest oil refining and marketing company, with an estimated 45 per cent share of the local market for petroleum products. The latest offer of 1bn shares is intended to reduce the government's holding to 40 per cent.

Last December, the Saudi Arabian Aramco oil group bought a 40 per cent stake with a bid of $502m.

The new offer is being made in two batches. The first, on offer from yesterday until August 5, is for 700m shares, at a price of 9 pesos a share. This batch will be restricted to Filipino investors.

The remaining 300m shares will be offered in blocks of at least 6,000 shares, with a minimum tender price of 9 pesos a share.

Opposition members of Congress have initiated a case in the Philippine Supreme Court to stop the sell-off which, they say, puts local investors at a disadvantage.

The minimum price of 9 pesos for the current stock offering is higher than the equivalent 8.70 pesos paid by Aramco for the 40 per cent it won last December.

Taiwan food group ahead at half-time

By Laura Tyson in Taipei

President Enterprises, Taiwan's biggest integrated food processing and retailing conglomerate, posted preliminary pre-tax profit of T$1.65bn (US$62m) in the six months to June 30, up 53 per cent from T$1.07bn in 1993.

The increase was attributed to the T$525m sale of a south Taiwan pig farm to be converted into a condominium development. Pre-tax profits in core operations, minus the land sale gain, rose 4.9 per cent on the year.

Total first-half revenues edged up 2.6 per cent to T$11.8bn from T$11.5bn in the first half of last year.

● United Micro Electronics, one of Taiwan's leading integrated circuits and semiconductor manufacturers, saw preliminary pre-tax profit more than double in the six months to June 30 to T$2.71bn (US$101m) from T$818.9m a year earlier.

First-half revenues rose 65 per cent to T$6.64bn.

Lac rebuffs takeover bid from Royal Oak Mines

By Bernard Simon in Toronto

Lac Minerals, the Toronto-based mining group, has scathingly rebuffed Royal Oak Mines' C$2bn (US$1.4bn) takeover bid, describing the offer by the Vancouver-based gold producer as inadequate and opportunistic.

Lac's board unanimously advised shareholders to reject Royal Oak's cash-and-shares offer, which was made on July 7.

Royal Oak had no immediate response. Investors and analysts have given the Vancouver company credit for drawing attention to Lac's shortcomings. Several sizeable Lac shareholders have gone on the record in the past 10 days to support the rationale behind Royal Oak's bid.

Nevertheless, many outsiders doubt that Royal Oak will emerge victorious. A competing bid is widely expected.

Lac is about three times bigger than Royal Oak. But its share price has under-performed other North American gold producers, despite the high quality of its assets.

Ms Peggy Witte, Royal Oak's pugnacious president, has estimated that she could chop at least US$40m from Lac's annual operating costs.

Mr Jim Pitblado, a non-executive director of Lac who will act as the board's spokesman in the unfolding takeover battle, said yesterday Royal Oak's offer would leave the proposed new company "saddled with significant interest expense, stripped of cash, highly leveraged and strapped for investment capital just as Lac is ready to move ahead with significant new mine development programmes."

Mr Pitblado described Royal Oak's offer as "a blatant attempt to rob Lac's shareholders of the true value of their investment with a low-ball offer that provides no real premium and dilutes their interest in Lac's significant growth potential."

He drew an unfavourable comparison between the Lac and Royal Oak mines, claiming that the latter had high-cost operations with unknown environmental risks. Royal Oak has an average cash cost of $315 per oz, compared to Lac's $180 an oz.

In a bid to support its claim of the inadequacy of the offer, Lac yesterday raised its estimate of its gold reserves from 8.6m to 13.5m ozs.

Michael Eisner: is expected to return to work in few weeks

Walt Disney chairman has heart surgery

By Martin Dickson in New York

Mr Michael Eisner, chairman of Walt Disney and the prime engineer of its strong growth record over the past decade, underwent quadruple coronary bypass surgery at the weekend, raising a question mark over the depth of management at one of the world's most successful entertainment companies.

Mr Eisner, 52, is expected to leave the Los Angeles hospital in several days and return to work in a few weeks.

In a statement released by Disney, his surgeon said the operation was a "normal bypass procedure without any complications".

The illness comes at a delicate time for the company. Mr Eisner has been operating without a number two since April when Mr Frank Wells, president of Disney and Mr Eisner's closest associate, was killed in a helicopter accident.

Disney is rumoured to be considering a bid for CBS, the television broadcasting network which made itself a potential takeover target by agreeing to merge with home shopping channel QVC, a deal now abandoned.

Many analysts think CBS would make a strong fit with Disney, which already owns a cable television channel and makes programmes for the broadcasting networks.

Disney is also locked in battle with a group of eminent US historians over its plans to develop a historical theme park, called Disney America, on a civil war site in Virginia.

Mr Eisner's condition will likely lead to calls for him to appoint a number two quickly. One candidate is Mr Jeffrey Katzenberg, who heads the company's film studios. He came to Disney with Mr Eisner from Paramount Pictures and has built the studios into one of the most successful in Hollywood.

Disney shares were little affected yesterday by the news of Mr Eisner, rising $¼ to $41⅞ in morning trading in New York.

Time Warner ahead at halfway

By Patrick Harverson in New York

Time Warner, the US entertainment group, has reported a second-quarter net loss of $23m, sharply reduced from the $83m loss a year ago due to record earnings at its publishing, music, films and cable TV programming businesses.

During the quarter, combined earnings before interest, taxes, depreciation and amortisation (Ebitda) for the group and its Time Warner Entertainment subsidiary reached $748m on revenues of $3.7bn, compared with Ebitda of $711m on revenues of $3.4bn a year ago.

Earnings in the first half were $1.38bn, up from $1.34bn in the first six months of 1993.

The group, which was left with a heavy debt and depreciation burden following the 1989 merger between Time and Warner, tries to focus attention on Ebitda as a measure of its underlying performance.

Its Time Warner Entertainment unit (comprising the film, HBO cable channel and cable systems businesses) reports its operating results on a deconsolidated basis.

Mr Gerald Levin, Time Warner's chairman, singled out the contribution of the group's publishing business, where Ebitda in the quarter jumped 19 per cent to a record $125m. Gains in advertising sales and circulation of its large stable of magazines were behind the improvement.

Time Warner's music unit made second-quarter Ebitda of $150m, also a record, up 10 per cent from a year ago due primarily to improved operating results at Warner Music International.

Record operating earnings were also posted by the group's filmed entertainment and HBO cable channel units, where Ebitda reached $267m and $67m, respectively.

Cable operations, however, did not fare so well in the quarter, reporting Ebitda of $256m, down from $270m a year ago, as the impact of the reduction in rates imposed by Congress last September offset gains achieved from customer base growth.

Genentech income jumps threefold

By Richard Waters in New York

Post-tax profits at Genentech, the US biotechnology company majority owned by Roche, the Swiss drugs group, jumped threefold in the second quarter as product sales rose by more than a third.

The company reported net income of $33.4m or 28 cents a share, up from $10.4m or 9 cents the year before, and broadly in line with market expectations.

Behind the growth in product sales, to $152m, were a 32 per cent rise in Activase, a drug used to prevent blood clotting, to $73.5m, and an 11 per cent advance by the company's two human growth hormones, to $59.5m.

Sales of Pulmozyne, taken by cystic fibrosis sufferers, launched in the first quarter, reached $18.7m.

Mr Kirk Raab, president and chief executive, said Activase sales growth could be further reinforced by a recent recommendation from a Food and Drug Agency advisory committee. This could lead to larger dosages of the drug being taken in the treatment of heart attacks.

Research and development spending, at $73m, was down from $84m a year before which a one-off charge of $13.7m was included.

Spending on R&D would increase in the second half of the year as later-stage clinical trials started on a number of additional products, Genentech said.

For the half-year as a whole, net income rose to $72m on sales of $394m, up from $25m on sales of $323m.

● Sales at Upjohn, the US pharmaceuticals company, slipped in the second quarter on growing generic competition to some of its biggest products. The slowdown, however, was not as rapid as some industry observers had expected.

The company reported post-tax earnings of $120m on sales of $891m, down from $125m on its sales of $895m the year before.

Earnings per share, at 67 cents, were three cents lower than the corresponding period but comfortably ahead of market expectations at around 60 cents.

Upjohn said US sales of Xanax, the anti-anxiety treatment which is its biggest-selling drug, had fallen 64 per cent to $80m during the period. US sales dropped 8 per cent overall, to $500m.

Outside the US, however, revenues rose 11 per cent to $391m, buoyed in part by higher sales of Xanax.

Mr John Zabriskie, the company's recently appointed chairman and chief executive, pointed to recent registration filings in 25 countries for Freedox, a haemorrhage treatment, as a sign of Upjohn's attention to the development of new products.

Patent expiries on a number of its drugs in the US and the takeover of US rival Syntex have pushed Upjohn to the top of most analysts' lists of potential takeover candidates in the pharmaceuticals industry.

For the first half as a whole, net income fell to $355m or $1.43 a share from $253m or $1.55 the year before.

American Barrick profits jump

By Robert Gibbens in Montreal

American Barrick Resources, the North American gold producer expanding internationally, has posted strong profit gains in the second quarter and first half.

Gold output rose 24 per cent to 947,535 ounces in the first half, with most of the gain at the Betze-Post mine in Nevada.

Average realised price was US$404 per oz sold, against the average spot price of $383 and with higher output, operating costs dipped to $169 per oz, compared with $172 per oz.

Net profit in the June quarter was $82.4m or 22 cents a share against $57.2m or 20 cents a year earlier, on gold sales of $207m, against $175m. Gold sales were $13,412 oz, up from 427,741 oz.

First-half net profit improved to $122.8m, or 43 cents a share, from $103.2m, or 36 cents, an increase of 19 per cent, on gold sales of $395m, against $319m.

At June 30, Barrick had $382m in cash and short-term securities and little debt.

According to Goldman Sachs and Salomon, Barrick will pass Placer Dome, Newmont and Homestake to become North America's biggest gold producer with output of 1.84m oz. It also holds one of the largest gold reserves.

Domtar to spin off Quebec mill

DOMTAR, a big Canadian forest products group, will spin off its northern Quebec kraft pulp mill into a separate unit partly held by employees and the public, writes Robert Gibbens.

Domtar will spend C$250m (US$182m) at the Quevillon mill to put in secondary treatment, a new boiler and a cogeneration plant. Capacity will rise from 250,000 tonnes yearly to almost 300,000 tonnes.

Quevillon, 400 miles north of Montreal, ships high quality pulp to Domtar's fine paper mills and also to outside customers.

Algoma Steel rebounds strongly to C$33.2m

By Robert Gibbens

Algoma Steel, restructured in 1992 at the height of the recession, is rebounding strongly. It has been boosted this year by rising demand for sheet and most of its other products, higher prices and a lower Canadian dollar.

In the second quarter to June 30, net profit was C$33.2m (US$24.1m), or $1.26 a share, against a loss of $4.5m, or 17 cents, a year earlier. Revenues rose 7 per cent to $262m.

It was the fourth consecutive quarterly profit for Algoma, which produces about 2m tonnes annually. In the first half the group recorded net profit of $49.2m, or $1.87 a share, compared with a loss of $22.3m, or 85 cents, a year earlier, on revenues which advanced to $528m from $446m.

Algoma said rolled products continued to perform strongly and volume was improving in tubular products and structurals. "The first half is indicative for the rest of the year," said Mr Glen Manchester, finance director.

Coca-Cola shrugs off private label competition with 13% rise

By Richard Tomkins in New York

Coca-Cola, the US soft drinks group, increased net profits by 13 per cent to $758m in the second quarter in spite of competition from private label colas in several of its biggest markets.

Last month PepsiCo, manufacturer of Pepsi-Cola, warned that its second-quarter profits would be virtually flat, partly because of price competition in the US soft drink market and because of poor results from its fast food operations.

Coca-Cola said its soft drinks volumes grew by 6 per cent in North America in the second quarter, helped by the introduction of new "contour" packaging for classic Coca-Cola and Diet Coke, and a successful Sprite advertising campaign.

It did not report separate profit figures for North America. But the company tends to be less directly affected by price competition than PepsiCo because price cuts hit the bottlers first, and unlike PepsiCo, Coca-Cola does not own its bottlers.

Internationally, Coca-Cola saw zero volume growth in the European Union countries and only 1 per cent growth in Japan. It blamed poor economic conditions for these results. But rapid growth in developing markets produced total international volume growth of 7 per cent.

Group revenues rose by 11 per cent to $4.34bn and earnings per share, as predicted by the company last month, rose by 13 per cent to 59 cents.

Half-year net income was 14 per cent ahead at $1.28bn.

Coca-Cola bought back 6m of its shares in the second quarter, taking the year-to-date total to 10m. There are now 1.29bn shares outstanding.

EBRD set to launch Ft1bn bond issue next week

By Graham Bowley

The European Bank for Reconstruction and Development is due to launch its first issue of public debt in an eastern European currency on Monday with a Ft1bn ($10m) bond issue, the first public bond in Hungarian forint issued by an international borrower.

It is a move the EBRD hopes will lead to more funds being raised in regional currencies, which would eliminate foreign exchange risk for borrowers and assist the development of the country's capital market.

The issue, open to both Hungarian and foreign investors, and the first tranche in a programme of up to Ft5bn ($50m), will help finance the building of a toll motorway between Budapest and Vienna.

"If this programme is a success we hope to extend it as a standard bank product to other eastern European markets such as the Czech and Slovak Republics, and Poland," said Mr Louis de Montpellier, director of funding at the EBRD.

The initial Ft1bn tranche will be launched at par with a maturity of five years and a coupon of 27.75 per cent per annum for the first six months followed by a floating-rate coupon.

Job cuts and $150m charge at Arco

By Richard Waters in New York

The shrinking of the US oil and gas industry continued apace yesterday as Atlantic Richfield announced a further $150m after-tax charge and a plan to cut its workforce by 2,000 more people by the end of next year.

Late last year, Arco took a $450m charge and announced 1,500 job cuts as part of a reorganisation of its US oil and gas business outside Alaska, the location of its biggest US production activities.

Taken together, these moves will leave the company with annual costs which are $400m lower by 1996, Mike Bowlin, Arco's president and chief executive, said yesterday.

Like others, Los Angeles-based Arco is attempting to channel a greater share of its capital spending into international ventures, which hold out the prospect of bigger discoveries and higher profits margins.

Two weeks ago, Texaco announced it was cutting 2,500 workers and selling half of its US oil-producing properties, while Chevron last week said it had found a buyer for its San Francisco headquarters building, though the name and likely sale price were not disclosed.

Among the latest round of job cuts at Arco, the company said it would reduce its workforce in Alaska by 750. At the end of 1993, the company employed 25,000 people, 20,000 of them in the US.

The latest charge, to be taken in second-quarter figures due shortly, results from improvements in the retirement and benefits package for former workers. Much of the earlier, $450m charge reflected write-downs in US assets.

S&P lifts Czech bank's rating

Standard & Poor's has raised its implied rating on the Czech National Bank's senior foreign currency debt to triple-B plus from triple-B, writes Antonia Sharpe. The rating outlook remains positive. S&P said the upgrade and outlook reflected the Czech Republic's smooth transition from a planned to a market economy and that the rating was supported by the country's position as a net international creditor and prudent economic management.

Rohm & Haas expects big earnings rise

Rohm & Haas, the US chemicals group, yesterday reported that its 1994 results will be substantially above 1993 earnings and may exceed the company's record 1988 performance of $230m, Reuter reports from Philadelphia.

However, currency changes and the current upward trend in raw material costs could influence the third-quarter results.

Rohm & Haas said that price increases in key feedstocks, including ammonia, methanol, acetone and styrene, would hit its third-quarter costs and force it to raise prices for certain product lines.

The company reported earnings for the second quarter of $93m, or $1.37 per common share, up from $61m, or $0.90 per share in the second quarter of 1993.

"Earnings are up – that's good news," said Mr J. Lawrence Wilson, the company's chairman and chief executive.

"But they still are below the levels we feel we need to achieve to do well in an industry where competition is becoming more and more fierce."

He added that his company would have to do more to control internal costs.

Treasury prices edge higher in quiet trading

By Frank McGurty in New York and Conner Middelmann in London

US Treasury bonds edged higher yesterday morning in quiet trading. By midday, the benchmark 30-year bond was ⅛ better at 85, with the yield slipping to 7.532 per cent. The two-year note was up 1/32 at 100, to yield 5.981 per cent.

There was no fresh economic news either to dampen or reinforce the upbeat mood established last Thursday and Friday. Prices for gold and other commodities held steady, and the dollar was enjoying a relatively painless day.

However, activity was restrained, and bonds were unable to break out of their tight trading ranges. Traders were delaying any substantial new commitments until after tomorrow's Humphrey-Hawkins testimony by Mr Alan Greenspan.

In his semi-annual briefing on the state of the economy, the Federal Reserve chairman is expected to tell a Senate committee that the central bank's recent tightening of monetary policy has succeeded in slowing growth without short-circuiting the recovery.

Technical factors, however, were partly offsetting the sanguine view of the fundamentals. The heavy influx of newly issued securities scheduled in the coming weeks was already having an influence.

Tomorrow, the Treasury will announce details of its regular two-year and five-year note auctions.

In early August, the government's quarterly refunding operation will bring billions of dollars in new three-year, 10-year and 30-year bonds into the market, only days before the next meeting of the Fed's policy-making open market committee.

■ After a soft start, most European bond markets ended higher, supported towards the close by stronger US Treasuries and late short-covering in the futures markets. Italy was the only exception, with mounting political tensions weighing heavily on bonds and the currency.

GOVERNMENT BONDS

Traders said many investors remained sidelined ahead of impending supply in Germany and the UK, this week's Humphrey-Hawkins testimony by the US Federal Reserve chairman and the Bundesbank Council meeting on Thursday.

■ Italian bonds opened sharply lower on the deepening political turmoil over Prime Minister Mr Silvio Berlusconi's recent decree barring preventive detention in corruption investigations.

In an effort to control price fluctuations, Italy's clearing house made a selective call for intra-day margin payments, while the London Clearing House made an intra-day margin call on the Liffe's Eurolira futures contract.

The September bond future was supported by technical support around 102 and recouped some of its early losses on late short-covering. However, political uncertainty, in addition to this week's release of the government's medium-term fiscal package, are likely to make for continued volatility.

■ German government bonds rose nearly ½ point, undaunted by the prospect of this week's 10-year bund issue. The first portion of the bonds will be placed today by the federal bond consortium, with the second tranche to be auctioned tomorrow. It is the first bund issue since the central bank cancelled two issues due to lack of demand.

"The bund auction will be crucial," said Mr Adrian James, European bond strategist at NatWest Markets in London.

He expects it to go "reasonably well", supported by increased demand for long-dated paper by investors shifting funds from the short end to the longer end of the yield curve.

Bunds were boosted by talk that June M3 money supply numbers, due to be released this week, may show a significant decline and by the Bundesbank's announcement that its council meeting would be followed by a press conference. This fuelled hopes that the German ceotral bank might cut official interest rates oo Thursday.

■ French bonds rose sharply, catching up with last week's gains in neighbouring markets when France was closed for a national holiday. The September notional bond futures contract on Matif rose 0.88 points to 117.16.

■ UK gilts were pulled up by the stronger continental markets, with the September long gilt future gaining $\frac{9}{32}$ to $103\frac{25}{32}$.

"After their recent rise, gilts are in consolidation mode, but on a robust base," said Mr Ian Shepherdson of Midland Global Markets.

The Bank of England today is to announce the terms of next week's auction of conventional gilts in the 2007 to 2011 maturity range. Most market participants expect the auction to meet healthy demand from UK institutions with a natural demand for long-dated assets like life insurance companies and pension funds.

Poor conditions check issue flow

By Tracy Corrigan

Adverse market conditions have checked the flow of international and foreign bond new issues this year and reduced the average maturity of bonds launched, according to the latest Financial Market Trends survey by the OECD.

Also, the proportion of fixed-rate bonds has shrunk in relation to floating-rate notes, particularly since interest rates began to rise in February.

New issues totalled $180bn in the first five months of the year, which implies a year-on-year decline of some $29bn, according to the report.

However, a large proportion of this activity was concentrated in the first two months, when new issue volume totalled almost $100bn, with an unprecedented $62bn raised in January alone.

While long-dated bonds were easily placed even at the turn of the year, when several borrowers issued 20-year and 30-year paper, the maturities of new issues have since declined due to the change in market conditions, the report notes.

Straight bond issues totalled $111bn in the first five months, a contraction of almost 34 per cent, while total offerings of floating-rate notes reached $44.6bn.

Straight bonds accounted for only 62 per cent of the market. The market share of straight bonds has traditionally been around 80 per cent.

For currencies perceived by the market to be near the bottom of the interest rate cycle there was a marked shift in the first two months from issuance of straight bonds to offerings of floating rates, the report said, citing the dollar, yen and sterling sectors.

Overall, the dollar sector of the international bond market remained the most important, with a 34 per cent market share, but the D-Mark sector fell back sharply from 14.3 per cent to 6.6 per cent.

The OECD says secondary market turnover of bonds and floating-rate notes totalled $1,800bn in the first quarter, citing industry sources.

The report estimates scheduled redemptions and early repayments et some $115bn in the first five months, implying net issuaoce of some $65bo, which represents a decline of around 20 per ceot.

Two leading US retail names beat dollar funding targets

By Antonia Sharpe

Two top US retail names tapped the Eurobond market yesterday in arbitrage-driven transections which enabled both issuers to beat their dollar funding targets by a comfortable margin.

A three-year $200m zero-coupon offering from Merck, the big US pharmaceutical group, was designed to appeal to distressed holders of floating-rate notes otructured with minimum and maximum coupons. This market has virtually collapsed in value in recent months due to the volatile intereot rate environment. Lead manager JP Morgan said Merck's bonds offered these investors, mainly from Switzerland and the Benelux region, a way to recoup their capital.

Mr Doug Rees, Merck's financing director, said the proceeds were swapped into floating-rate dollars at a rate well below its normal US commercial paper borrowing level. Syndicate manegero estimeted that Merck had made e saving of around 20 basis points.

JP Morgan said about half the deal had been placed yesterday, though it bought back around $30m worth of paper. When the bonds were freed to trade, they rose to 83.82 from a re-offer price of 82.765.

INTERNATIONAL BONDS

However, other houses reported slower than expected sales, which suggested that the aggressive pricing of 8 basis points below the US Treasury strip yield curve had put off investors not canght in the so-called "mini-max" trap.

AT&T also made e considerable saving, thought to be around 10 basis points compared with its dollar funding levels, when it swapped the proceeds of its Ecu150m four-year eurobond issue into dollars. SBC said the Ecu's good performance against the D-Mark had prompted the issuer to pick that currency for its first non-dollar eurobond. AT&T had also considered lire, Canadian dollars and D-Marks.

The European Community is expected to tap the Ecu sector leter this week, raieing Ecu300m through an offering of seven-year eurobonds. The yield on the bonds is likely to subatantially less than the French government's 10 per cent Ecu bonds due 2001. Federal Home Loans Bank System is also dne to raise $1bn through its offering of two-year global bonds later this week, via Lehman Brothers and Morgan Stanley.

Elsewhere, Salomon Brothers, on behalf of the UK Treasury, said the following privatised companies had repurchased their bonds offered in a sale held yesterday: British Telecom, London Electricity, Manweb, National Power, Scottish Hydro and Seeboard. In eddition, SG Warburg Securities has been eppointed to sell a £37m Manweb bond due 2008.

The total proceeds received by the Treasury will amount to around £1.3bn while total proceeds from the sale of debt in privatised companies this year will be some £1.8bn.

National Power said the repurchase would result in a charge to its profits of £29.5m, which will be reported as an exceptional item in the current financial year. Scottish Hydro is to charge about £18.8m egainst current year pre-tax profits.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Merck & Co.	200	zero	82.765R	Aug.1997	0.155R	+5 (6¼%-97)	JP Morgan Securities
YEN							
WestLB Finance Curacao(a)	15bn	2.85	100.15	Nov.1996	0.15	-	Mitsubishi Finance Intl.
Cregem Finance(a)✶	10bn	3.15	100.00	Feb.1997	undiscl.	-	Yamaichi Intl.(Europe)
ECUS							
AT&T(b)	150	7.25	99.69R	Aug.1998	0.25R	+6 (7¼%-98)	Swiss Bank Corp.

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ✶Unlisted. R: fixed re-offer price; fees are shown at the re-offer level. a) Short 1st coupon. b) Spread relates to French Ecu BTAN's.

Czech group plans placing

By Vincent Boland in Prague

Bonton, e Czech entertainment group with interests ranging from record stores to video production, is to raise up to $15m in a private placing of shares with international institutions.

The transaction will be one of the first of its kind in the Czech Republic and could value Bonton at up to $70m. Proceeds will be used for ecquisitions and to reduce debt.

Bonton also runs an investment fund with stakes in other media and entertainment groups, and owns 5 per cent of Patria Finance, a Prague investment bank.

The company had turnover last year of over $8m and made profits of Kc837,000 ($30,000), according to CS First Boston Prague, which is arranging the placing. Turnover this year is estimated at Kc600m ($21.4m) following acquisitions.

The share placing is expected to be completed in October. Bonton may seek a stock market listing in two years' time.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		9.000	09/04	87.8400	+0.380	9.33	8.74	8.62
Belgium		7.250	04/04	96.2400	+0.040	7.81	7.92	8.10
Canada *		6.500	06/04	83.9000	−0.850	9.00	9.32	9.33
Denmark		7.000	12/04	92.3000	−0.150	8.12	8.35	8.46
France	BTAN	8.000	05/98	104.6250	-	6.68	6.90	7.03
	OAT	5.500	04/04	86.0100	+0.680	7.25	7.44	7.86
Germany Treuhand		6.750	05/04	99.3400	−0.410	6.84	6.97	7.32
Italy		8.500	01/04	88.1700	−1.630	10.50†	10.48	11.08
Japan	No 110	4.800	06/99	104.8890	−0.010	3.63	3.61	3.63
	No 164	4.100	12/03	98.0020	−0.460	4.40	4.39	4.49
Netherlands		5.750	01/04	92.9400	+0.180	8.78	0.91	7.36
Spain		8.000	05/04	85.7500	−0.250	10.37	10.77	10.87
UK Gilts		8.000	06/99	92-21	+5/32	7.79	8.10	8.47
		8.750	11/04	90-14	+14/32	8.13	8.38	8.79
		9.000	10/08	106-02	+15/32	8.26	0.41	8.78
US Treasury *		7.250	05/04	100-07	+3/32	7.22	7.45	7.16
		6.250	08/23	84-30	+1/32	7.53	7.72	7.47
ECU (French Govt)		8.000	04/04	88.4300	+0.880	7.73	8.02	8.29

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime

		Treasury Bills and Bond Yields			
Prime rate	7¼	One month	4.18	Two year	0.05
Broker loan rate	5½	Two month	4.32	Three year	6.34
Fed.funds	4¼	Three month	4.37	Five year	6.81
Fed.funds at intervention	-	Six month	4.86	10-year	7.22
		One year	6.34	30-year	7.53

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	116.30	117.16	+0.86	117.42	116.24	110,200	124,721
Dec	115.52	116.34	+0.86	118.44	116.50	716	13,480
Mar	114.80	115.62	+0.86	114.80	114.80	2	1,917

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Aug	Calls Sep	Calls Dec	Puts Aug	Puts Sep	Puts Dec
110	-	2.90	-	0.22	0.85	1.92
110	1.55	2.27	-	0.40	1.10	-
117	0.95	1.58	2.03	0.75	1.43	-
118	0.44	1.09	1.61	-	1.84	-
119	0.18	0.72	1.18	-	-	-

Est. vol. total. Calls 26,453 Puts 20,263. Previous day's open int., Calls 345,169 Puts 361,951.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	93.75	94.25	+0.39	94.35	93.44	99052	160579
Dec	92.85	93.65	+0.39	93.65	92.80	1469	8890

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
9400	0.54	1.15	1.08	1.45	0.29	0.90	1.54	1.90
9450	0.28	0.88	0.86	1.21	0.53	1.13	1.81	2.16
9500	0.13	0.65	0.70	0.99	0.88	1.40	2.10	2.44

Est. vol. total, Calls 14260 Puts 7654. Previous day's open int., Calls 282882 Puts 281012

■ NOTIONAL MEDIUM TERM GERMAN GOVT. BOND (BOBL)(LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep		99.11	0.25	-	-	0	78

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	102.70	103.05	-1.15	103.78	102.10	35779	82479
Dec	-	101.85	-1.15	-	-	0	110

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
10300	2.05	2.07	2.00	4.02
10350	1.80	2.86	2.25	4.31
10400	1.57	2.47	2.52	4.62

Est. vol. total, Calls 759 Puts 1984. Previous day's open int., Calls 31933 Puts 27938

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	90.00	90.70	+0.22	90.89	89.80	50,670	104,168
Dec	-	90.00	-	-	-	-	314

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	103-13	103-25	+0-09	104-00	102-27	62906	113027
Dec	-	102-31	+0-09	-	-	0	1239

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
103	1-60	3-01	1-10	3-03
104	1-25	2-35	1-39	3-37
105	0-60	2-09	2-10	4-11

Est. vol. total, Calls 1796 Puts 3595. Previous day's open int., Calls 64477 Puts 50097

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	84.24	85.02	+0.78	85.10	84.24	1,499	5,456
Dec	-	84.68	+0.78	-	-	-	-

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	102-16	102-26	+0-10	102-26	102-14	453,984	391,225
Dec	101-26	102-02	+0-08	102-02	101-21	8,163	57,075
Mar	-	101-02	-	-	-	120	4,393

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	108.72	-	-	108.74	108.62	1392	0
Dec	108.72	-	-	108.77	108.72	204	0

* LIFFE contracts traded on APT. All Open Interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Mon Jul 18	Day's change %	Fri Jul 15	Accrued interest	xd adj. ytd
1 Up to 5 years (24)	122.18	−0.03	122.37	1.89	6.40
2 5-15 years (22)	143.44	+0.08	143.33	2.51	8.71
3 Over 15 years (9)	160.97	+0.18	160.67	2.47	8.57
4 Irredeemables (6)	184.55	+0.66	183.34	1.92	7.38
5 All stocks (61)	140.42	+0.07	140.38	2.23	6.84

	Low coupon yield Jul 18	Low Jul 15	Low Yr. ago	Medium coupon yield Jul 18	Medium Jul 15	Medium Yr. ago	High coupon yield Jul 18	High Jul 15	High Yr. ago
5 yrs	7.69	7.67	6.78	8.10	8.09	6.85	8.15	8.14	7.14
15 yrs	8.17	8.18	7.75	8.28	8.29	7.85	8.54	8.58	8.10
20 yrs	8.14	8.17	7.90	8.28	8.29	7.94	8.38	8.43	8.13
Irred.†	8.18	8.23	8.06						

Index-linked	Mon Jul 18	Day's change %	Fri Jul 15	Accrued interest	xd adj. ytd
6 Up to 5 years (2)	187.22	+0.07	187.09	1.48	2.53
7 Over 5 years (11)	172.25	+0.23	172.17	0.41	3.25
8 All stocks (13)	172.81	+0.21	172.69	0.51	3.18

	Inflation 5% Jul 18	Jul 15	Yr. ago	Inflation 10% Jul 18	Jul 15	Yr. ago
Up to 5 yrs	3.80	3.62	2.01	2.49	2.51	1.99
Over 5 yrs	3.85	3.86	3.45	3.64	3.66	3.26

Debentures and Loans	Mon Jul 18	Day's change %	Fri Jul 15	Accrued interest	xd adj. ytd
9 Debs & Loans (78)	132.03	−0.30	132.42	2.71	5.84

	5 year yield Jul 18	Jul 15	Yr. ago	15 year yield Jul 18	Jul 15	Yr. ago	25 year yield Jul 18	Jul 15	Yr. ago
9 Debs & Loans	9.30	1	8.47	9.25	9.21	8.83	9.20	9.16	8.99

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	July 18	July 15	July 14	July 13	July 12	Yr ago	High*	Low*
Govt. Secs. (UK)	94.03	93.91	94.11	93.75	93.42	98.23	107.04	90.99
Fixed Interest	112.43	112.39	112.07	111.83	111.00	117.10	133.87	107.33

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	July 15	July 14	July 13	July 12	July 11
Gilt Edged bargains	137.9	103.2	143.2	97.6	79.6
5-day average	112.3	100.3	94.4	83.4	81.7

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on July 18

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	91⅞	91⅞	+⅛	7.85
Alberta Province 7⅞ 98	1000	101½	101⅞	+⅛	7.19
Austria 5½ 00	400	105⅜	105⅝	+⅛	7.27
Bank of Tokyo 8⅛ 96	100	102⅝	103¼	+⅛	6.66
Belgium 5½ 03	1000	85⅛	85⅞		7.80
[illegible]					
United Kingdom 7¼ 97	5500	103⅛	103¼	+⅛	6.08
Volkswagen Intl Fin 7 03	1000	93⅝	93⅞		7.19
World Bank 0 15	2000	22⅞	23⅛	-⅛	7.13
World Bank 5⅞ 00	3000	92⅞	92⅞	+⅛	6.85
World Bank 8⅝ 98	1250	111⅞	112¼	-⅛	6.22
[illegible]					
Abbey Natl Treasury 0 98 £	1000	94⅛	94⅜	+⅛	8.94
Alliance Leics 11¾ 97 £	100	108¾	109⅛		7.78
British Land 8⅞ 23 £	150	90⅝	91⅛	-⅛	10.10
Denmark 6¾ 98 £	500	95¾	95⅞	+⅛	8.00
EIB 10 97 £	637	105⅝	106	-⅛	7.45
Halifax 10⅜ 97 £	100	105¼	105⅝		7.62
[illegible]					

FLOATING RATE NOTES

	Issued	Bid	Offer	C.cpn
[illegible]				

CONVERTIBLE BONDS

	Issued	Conv. Price	Bid	Offer	Prem.
[illegible]					

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. [illegible] CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK GILTS PRICES

Notes	Yield (1)	Yield (2)	Price £	+ or -	1994 High	1994 Low
[illegible]						

Other Fixed Interest

Notes	Yield Int	Yield Red	Price £	+ or -	1994 High	1994 Low
[illegible]						

■ 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 18.07.94: Pool purchase price £/MWh	Final Prices for Trading on 20.06.94: Pool purchase price £/MWh	Pool selling price £/MWh
0030	10.55	12.77	15.68
0100	9.61	9.62	9.62
0130	9.61	9.62	9.62
0200	9.61	9.62	9.62
0230	9.61	9.62	9.62
0300	9.61	9.62	9.62
0330	9.61	9.62	9.62
0400	9.61	9.62	9.62
0430	9.80	9.62	9.62
0500	9.80	9.62	9.62
0530	9.80	9.59	9.59
0600	9.80	10.50	10.50
0630	9.90	9.62	9.62
0700	19.58	16.30	16.30
0730	17.43	23.74	26.85
0800	22.44	24.04	26.95
0830	22.56	25.67	26.79
0900	22.97	25.93	28.98
0930	23.44	26.01	28.98
1000	29.17	29.13	31.09
1030	29.43	28.17	31.15
1100	29.60	28.22	31.21
1130	30.41	29.82	32.96
1200	30.80	30.06	33.12
1230	30.46	30.03	33.06
1300	29.66	29.79	32.79
1330	28.78	28.11	31.07
1400	25.77	25.96	28.88
1430	25.61	25.85	28.86
1500	23.37	34.42	37.34
1530	23.34	34.41	37.33
1600	23.48	25.03	27.97
1630	28.76	33.67	36.62
1700	30.31	37.79	40.74
1730	30.09	37.74	40.66
1800	28.26	28.07	30.99
1830	22.66	24.21	27.11
1900	22.12	24.03	26.94
1930	22.12	25.83	28.74
2000	22.12	23.74	26.65
2030	22.12	22.86	25.78
2100	22.12	22.57	25.48
2130	22.97	22.86	25.78
2200	22.97	34.36	37.26
2230	24.79	34.36	37.26
2300	24.79	22.57	25.48
2330	22.12	20.79	23.69
2400	19.50	22.57	25.48

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 19.07.94: Pool purchase price £/MWh	Final Prices for Trading at 21.06.94: Pool purchase price £/MWh	Pool selling price £/MWh
0030	13.38	17.69	10.06
0100	10.06	11.95	14.30
0130	10.05	11.95	14.30
0200	10.06	11.95	14.30
0230	10.05	11.95	14.30
0300	10.06	11.95	14.30
0330	10.06	11.95	14.30
0400	10.06	11.95	14.30
0430	10.05	11.95	14.30
0500	10.06	11.95	14.30
0530	10.43	10.60	10.60
0600	10.45	10.60	10.50
0630	10.45	10.70	10.79
0700	25.97	24.45	26.82
0730	25.98	24.48	26.83
0800	26.10	24.67	27.03
0830	26.41	24.55	26.92
0900	27.18	24.84	27.25
0930	28.06	24.87	27.42
1000	30.22	25.13	27.61
1030	30.42	25.34	27.87
1100	28.88	25.85	26.27
1130	33.73	26.12	28.56
1200	33.90	31.32	34.24
1230	33.21	31.78	34.71
1300	32.18	31.30	34.22
1330	27.06	30.51	33.10
1400	26.73	29.73	32.24
1430	26.06	28.59	32.06
1500	26.46	25.09	27.55
1530	26.42	26.06	27.64
1600	26.73	25.34	27.74
1630	34.26	38.08	40.81
1700	34.36	38.15	40.75
1730	38.36	37.89	40.43
1800	27.99	37.45	38.90
1830	23.07	24.59	27.06
1900	23.05	24.48	26.83
1930	22.40	23.61	26.15
2000	22.40	23.57	25.92
2030	22.40	22.60	24.84
2100	11.00	36.62	38.96
2130	22.40	36.62	38.96
2200	22.40	36.62	38.96
2230	22.40	36.62	38.96
2300	22.40	22.60	24.84
2330	21.38	20.62	22.98
2400	22.40	17.61	19.95

COMPANY NEWS: UK

The world is its jigsaw

David Wighton on Medeva's strategy of adding value to acquisitions

When Medeva's share price halved after a profits warning a year ago today, Mr Bernard Taylor, the acquisitive pharmaceuticals group's chairman, said it would take time to rebuild investor confidence. He was dead right.

Although the shares have regained some of the lost ground relative to the market, they have recovered by less than 10 per cent. Yet Medeva has done much to calm investors' concerns.

Following the warning it put its acquisition plans on hold and used the pause to strengthen its management and controls. Its 1993 figures emerged comfortably above the City's (lowered) expectations, showing strong underlying growth, and its founder, Mr Ian Gowrie-Smith, stepped down as managing director, a move welcomed by some in the City.

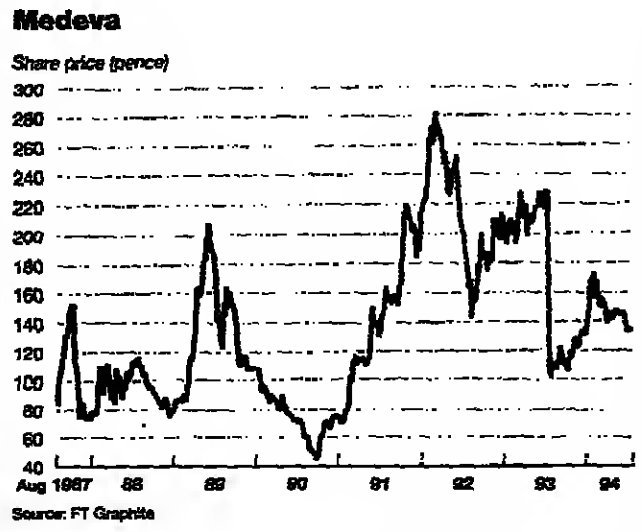
But still the share price failed to respond, suggesting there may be more fundamental concerns.

One is the general nervousness about the pharmaceuticals sector as a whole caused by pressure on prices around the world and in particular healthcare reforms in the US.

Relative to the depressed sector, Medeva's shares have performed rather better, perhaps reflecting the company's claim that it will be less hurt by the reforms than many of its rivals.

This is partly because many of its products are low-cost rivals to branded market leaders, and may benefit from switching by purchasers. In addition, Mr Bill Bogie, chief executive, believes that structural changes in the industry will throw up more opportunities for Medeva.

"The majors have to cut costs and are looking hard at their product lines and sales forces in order to concentrate on their strengths."



Source: FT Graphite

Mr Bogie predicts that they will sell on more of their smaller products, or at least put them through other companies' specialist sales forces.

When it comes to buying other people's established products, even the sceptics cannot knock Medeva's record. In almost all cases the deals have been successful, in some cases, spectacularly so.

In May 1991, Medeva spent $77m on MD Pharmaceuticals, a manufacturer of specialised generic drugs which has proved so fast it has virtually paid for itself already.

This has been the most successful aspect of the strategy developed by Mr Gowrie-Smith and Mr Taylor. The idea was to build a pharmaceuticals company that could generata growth without heavy investment in research and development by acquiring products which were already established or in the final stages of development.

Medeva would add value partly by building an international sales force that could push products which were only established in local markets.

Pursuing this plan, it has built up a number of specialist sales forces around the world, notably in the US respiratory market. Now 220-strong, this is now picking up some promising products under licence, most recently a new hay fever treatment from Wellcome.

But there are clear gaps in its network. One close observer of the company says: "The profit warning caught Medeva in the middle of constructing its jigsaw and left it with some large holes. In some areas it has products but no sales force and in others a sales force but no products."

The slump in the share price makes further acquisitions much more difficnlt, and though it has a reasonably strong balance sheet, without a recovery in its rating its options are much more limited.

It has been suggested that Medeva is interested in Boots' pharmaceuticals division, but given that Medeva's market value of £375m is about half the likely price tag of the Boots business, buying all or a large part of it would be a very big step.

Mr Bogie admits that further geographical expansion is on hold for now and that the focus is on building up the product portfolio. Although the group's sales are showing strong growth, most of its products have a limited life given their lack of patent protection. So the medicine cabinet will need some new blood before long.

Yet a key part of the Medeva strategy, buying products in late stage development, has yet to bring any results. Most disappointing has been the year's delay on the expected filing of the Hepatitis B vaccine acquired two years ago.

Although many City analysts are now positive about Medeva, some remain sceptical about the prospects for a small company in an industry where size and vertical integration are seen as increasingly vital.

One City observer says: "Medeva has still got a lot to prove. Maybe the strategy is sound and it will be possible to construct a significant pharmaceuticals group along these lines. But maybe there was a window of opportunity which Medeva is in danger of missing because of the share price slump."

Medeva has a number of attractive businesses, particularly in respiratory products and vaccines, but some analysts question whether the whole shonld be valued at more than the sum of the parts. If not, perhaps more value would be generated by selling them off.

Medeva founder shows preference for privacy

By David Wighton

Mr Ian Gowrie-Smith, who stepped down as managing director of Medeva in March, is not really cut out for public company life. Apart from anything else, when things go wrong it is just a bit too public for his taste.

He is a relaxed and outgoing Australian but also values his privacy and has not enjoyed the media attention he has received over the past year.

It has been a pretty mixed press. Even before last year's profits warning there was talk of a whispering campaign aimed at ousting him from the board. After the share price plunged it was suggested that only his removal would restore City confidence. And coverage of his move to a non-executive role centred on the size of his pay-off.

No whinger, he is nevertheless clearly hurt by his treatment at the hands of the press. He particularly resents the suggestion that he was responsible for the problems at the two US subsidiaries last year, pointing out that he was only briefly non-executive president of the American operations.

He also attacks the suggestion that the problems revealed a fundamental flaw in the group's hectic acquisition strategy. "Every acquisition has an element of gamble and it is the total result that determines success or failure."

Although Medeva is a long way from becoming "one of the most successful companies in British corporate history", as be predicted, he is proud of wbat he has achieved since founding the company in 1987.

Then called Medirace, Mr Gowrie-Smith brought it to the market with just the rights to a drug whose development has since been dropped. "The market was looking for Aids and cancer plays at the time and one thing I am good at is spotting opportunities and selling ideas."

Another thing he is good at is doing deals. "He may not have gone down that well with everyone in the City but you have to admit he pulled off some great acquisitions for Medeva," says one analyst.

He hopes to do more working for Medeva on a consultancy basis through his company Brightstone. Formed with long-time business partner Mr David Lees, who resigned as Medeva's finance director in March, the company is looking at a number of projects as well as searching out deals for Medeva. Mr Gowrie-Smith is particularly interested in commercial property where he believes there are now many opportunities.

He is guaranteed consultancy fees from Medeva of almost £1m over the next three years. But he has an incentive to produce the goods as a large part of his wealth is tied up in Medeva shares.

He admits to being much happier outside Medeva, which is inevitably developing the big company culture he hates.

As a result, he says it is unlikely he will return to the public company scene; but then he pauses; "You can run quite a large property company without a large head office. The real question is whether being public is worth the loss of privacy."

NEWS DIGEST

Inspirations cuts losses to £970,000

Reduced pre-tax losses of £970,000 were announced by Inspirations, tha vertically integrated package holiday group, for the six months to March 31. Losses last time amounted to £1.39m.

The group, which came to the USM in December, has increased its wholly owned retail travel agencies from five at the time of flotation to 42, and Mr Jim Harris, chairman, said that by next spring the group expected to own more than 100.

Turnover rose to £23.9m (£14.9m). Losses per share were at 2.8p (4p); an interim dividend of 0.56p is declared.

Lancs Enterprises rises 5% to £1.43m

Lancashire Enterprises, the local economic development company, made pre-tax profits of £1.43m in the half year to April 30, an increase of 5 per cent.

The interim dividend rises 8 per cent to 1.35p (1.25p). The shares are traded on a matched bargain basis.

Earnings per share were 5.4p (4.5p), after taking into account a share split and a 1-for-1 scrip issue in March.

Turnover rose 22 per cent to £7.55m (£6.17m), but profitability was affected by business development costs, including the launch of Partnership UK, which offers packages of employment and economic initiatives to local authorities, and a consultancy service for developing countries, particularly in eastern Europe.

Fitch sells London property for £3.8m

Fitch, the design company, has exchanged contracts for the sale of its Crinan Street property in London to MacMillan for £3.75m cash. The price reflects the value of tha property in the accounts at December 31.

Directors said that £3.45m of the proceeds would be used to repay part of the £6m term loan from NatWest.

Elswick completes £400,000 acquisition

Elswick, the packaging, paper and printing concern, yesterday announced it had completed the acquisition of Joseph Steinfeld for £400,000 cash.

Steinfeld, a maker of woven labels and ancillary products for the clothing industry, incurred a deficit of £59,000 on sales of £1.17m in the year to end-January. Shareholders' funds were £772,000.

Amicable Smaller net asset value dips

Amicable Smaller Enterprises Trust reported a net asset value of 137.84p as at June 30, a declina of 3.3 per cent since the trust's December year end.

The benchmark Hoare Govett Smaller Companies Index fell 4.8 per cent during the same period.

Net revenue for the six months to end-June amounted to £605,000 (£356,000). The interim dividend is held at 1.7p, payabla, after a £77,000 transfer from revenue reserves, from lower earnings of 1.51p (1.71p) reflecting increased capital after a £29m placing late last year.

Net assets decline at Fleming American

The Fleming American Investment Trust, which seeks capital growth through a portfolio of mainly listed US stocks, had a fully diluted net asset value of 292.3p per share as at June 30.

The figure compared with values of 326.4p at end-December and 295.3p at June 30 last year.

Available revenue for the half year improved to £845,000 (£590,000), for earnings of 1.26p (0.89p) per share. The interim dividend, however, is cut from 0.85p to 0.4p.

BSG to acquire rest of Jessups

BSG International has sent out notices to non-assenting shareholders of Jessups, the vehicle distributor, to acquire the outstanding ordinary and preference shares.

BSG, which has split its operations into two core divisions, Britax International, the manufacturing side, and Bristol Street Motors for vehicle distribution and servicing, made the recommended £20m offer for Jessups in May.

TDG sells stake in Portuguese offshoot

Transport Development Group is selling for £1.6m its 60 per cent stake in Transportes J Amaral to members of the Amaral family from whom it purchased the holding in 1989.

Based in Estarreja, between Lisbon and Oporto, Amaral is engaged in the transport of chemical products in Portugal and general international haulage.

In 1993 Amaral's profits before interest and tax attributabla to TDG were £250,000 and attributable assets at tha year end were £1.42m.

Leslie Wise little changed at £1.24m

Leslia Wise Group, the clothing manufacturer and distributor, reportad static profits of £1.24m pre-tax for the six months to May 31, against £1.23m.

The figure was struck after a £93,000 redundancy and trading loss at the garment manufacturing subsidiary and a £50,000 loss incurred in developing the new import division.

Turnover for the Leicester-based company rose 18 per cent from £22.6m to £26.8m mainly because of the increase by the specialist design companies.

Earnings per share were unchanged at 2.38p and the interim dividend is held at 1.75p.

Mr Neil Wise, chairman, said the second half had started well with turnover in June and July "significantly ahead" of last year. He added that the traditional trading pattern was moving towards a stronger second half.

Court Cavendish in £4.2m expansion

As part of its expansion programme, Court Cavendish Group, the nursing home operator which came to the market a year ago, has acquired three care homes in Cambridgeshire for £4.19m cash.

Dr Chai Patel, execntive chairman, said the purchase of the homes, with a total of 108 registered beds, gave a good start to the current acquisition programme which aims to add about 500 beds.

Two of the homes have tha potential to add 35 more beds.

The last financial statements of the two companies owning and operating the homes showed a combined operating profit of £365,023 and a pre-tax profit of £171,699. The three homes are now producing operating profits at an annualised rate of £675,000.

In the year to April 30 1994 pre-tax profits of Court Cavendish rose from £194,000 to £3.09m before exceptional costs of £600,000.

COMPANY NEWS: UK

Wellman pays £46m for three FKI offshoots

By Tim Burt

Wellman, the specialist engineering group, yesterday announced a large-scale expansion through the £46m acquisition of three businesses from FKI, the electrical engineering and components group.

The deal, funded partly by a £32m placing and open offer, will increase Wellman's market capitalisation from £12m to £54m, with turnover predicted to jump from £22.3m to about £130m.

Under the transaction, Wellman has agreed to pay FKI £30m from the placing and open offer – involving 88.9m new ordinary shares at 36p – while also issuing to FKI £10m of convertible preference shares and £6m of loan stock.

Existing shareholders will be offered new shares on a 5-for-4 basis, and 5-for-1 for preference shareholders. The issue has been underwritten by Singer & Friedlander.

Mr Geoffrey Iley, Wellman chairman, said the acquisition would transform the Midlands-based group from a lossmaking operation into one with the potential for profits and growth.

"This deal gives us critical mass. After some pretty poor results, we had to make the existing business viable and to expand."

It follows more than six months of talks with FKI, which has agreed to sell three subsidiary groups: Transport Equipment, comprising four businesses making equipment for the automotive, garage and car parking market; Data Recording Instruments; and Babcock Robey, the boiler and pressure vessel manufacturer.

The FKI companies made operating profits of £3.14m (£3.61m) on turnover of £91.8m (£91m) in the year to March 31 1994. Mr Iley said the figure had been dented by exceptional restructuring provisions of £2.07m which were "unlikely to recur in the future".

For the same period, Wellman reported pre-tax losses of £1.07m (£681,000 profits).

Wellman, however, said its performance had improved following the arrival last November of Mr Alan Baxter, a former FKI director, as chief executive.

Mr Baxter, who first approached FKI with the acquisition proposal, has been credited with cutting Wellman's costs by 16 per cent and winning record orders of £24m this year.

Mr Iley also announced a dividend for the current year of not less than 1.44p, pending approval of the deal.

For FKI, yesterday's deal marked another stage in its phased withdrawal from non-core businesses. Mr Eric Bowers, finance director, said the disposals would enable the group to concentrate on four main areas: automotive components, hardware, engineering, and materials handling.

"It was always our aim to get rid of peripheral businesses, and Wellman was the only group to make an offer for the lot." FKI plans to use the £30m payment to cut its £122m net borrowings, reducing gearing from 80 per cent to 44 per cent.

See People

Strong second quarter at WMI

By Paul Taylor

Waste Management International, the UK-listed arm of WMX Technologies of the US, reported strong second-quarter turnover and profit increases underpinned by volume growth and acquisitions.

Pre-tax profit for the three months to June 30 increased by 18 per cent to £43.6m (£37.1m) on revenues ahead 22 per cent to £286.9m (£234.9m). The quarterly results lifted pre-tax profit for the first half to £82.2m (£71.5m) on turnover up 19 per cent to £542.9m (£455.7m). Mr Nigel Wilson, finance director, said volume growth accounted for 14 percentage points of turnover growth in the second quarter, price increases generated 2 percentage points of the increase and acquisitions added 8 percentage points, while currency movements reduced growth by 2 percentage points.

Operating profits in the second quarter increased by 20 per cent from £28m to £48.7m and from £73.3m to £88.6m for the first half.

Mr Edwin Falkman, chief executive, said the group had made "good progress" during the second quarter with sustained growth in both revenue and profits.

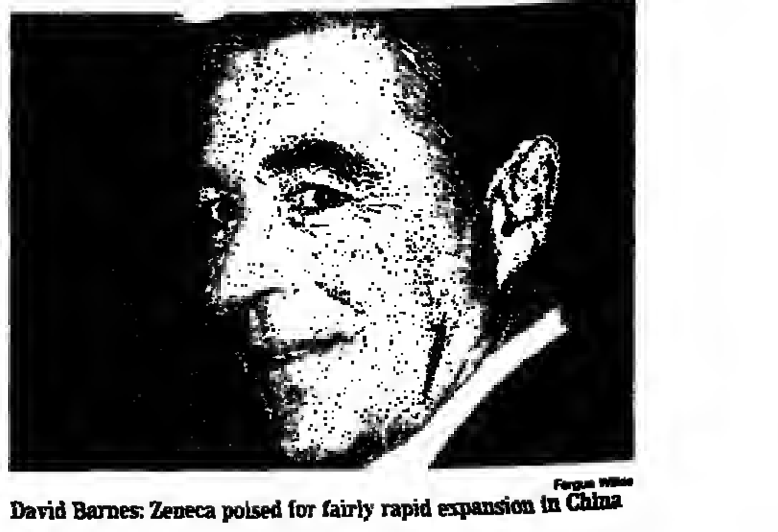
"These results have been achieved through a balance of new projects, acquisitions, productivity gains and cost reductions," he said. "While pricing has remained weak, we have experienced volume growth in some markets. In Europe, our business performance has been mixed, in part reflecting the slow and uneven economic recovery in the region."

During the quarter the group spent £13m on 16 small acquisitions including purchases to Denmark, Finland, France, Germany, the Netherlands, Sweden and the UK.

Earnings per share increased by 9 per cent to 7.3p (6.7p) for the quarter and by 7 per cent to 13.6p (12.7p) for the half year, with higher minority interests partly offset by a reduced tax rate.

Ready for China to westernise

Tony Walker on Zeneca's moves to exploit the changing market



David Barnes: Zeneca poised for fairly rapid expansion in China

Mr David Barnes, chief executive of Zeneca, the agrochemicals and pharmaceuticals group, believes his company is putting the building blocks in place for what will be a long-term and lucrative involvement in China.

Speaking in Beijing recently after announcing plans to invest $100m (£66m) over the next five years in China, he said Zeneca's approach was to "treat each market as a domestic market and develop from within".

In seeking to position itself in China, Zeneca has opted for a two-pronged strategy that rests on production locally of agrochemicals such as paraquat, the active ingredient in the Gramoxone wide-application herbicide; and on the establishment of co-operative arrangements in the marketing and eventual manufacture of pharmaceuticals.

For a company of Zeneca's size and reach – 1993 turnover was $6.7bn – its involvement in China is modest. Sales of its agrochemicals and pharmaceuticals totalled just $44m last year. This represents a negligible share of regional sales, which account for about 15 per cent of Zeneca's global business. The company was floated in London and New York last year following its demerger from ICI.

But Mr Barnes is confident that, in spite of its limited presence in China, Zeneca is poised for fairly rapid expansion. Within the next few weeks it will announce an agreement with a Chinese joint venture partner to produce paraquat, probably in the Yangtze delta within reach of its biggest markets.

The company is also fairly close to agreement on the establishment of a plant in the Shenzen special economic zone adjacent to Hong Kong to produce specialty chemicals used in high value-added products such as dyes, printing ink and resins.

At the same time Zeneca is in the process of forming a joint venture consultancy to be known as the Sino-Pharm Development Consulting Company. Its partner in this venture is Sino-Pharm, the foreign trade corporation of the State Pharmaceutical Administration of China.

This strategic link with the state pharmaceutical marketing authority is aimed at opening China to a number of Zeneca's more sophisticated products, including Diprivan, its intravenous anaesthetic, Tenormin, a heart drug, and Nolvadex for the treatment of breast cancer.

The company hopes the consultancy will lead to manufacturing ventures as demand among affluent Chinese increases for "expensive" drugs.

Indeed, Western-style medicines have been growing at a faster pace than traditional Chinese medicines and account for 65 per cent of the total Chinese pharmaceuticals market, which was worth about $4bn in 1992.

Imports of pharmaceutical products account for about 10 per cent of the total and have been achieving year-on-year growth in excess of 20 per cent for the past decade.

Zeneca executives say an important new and helpful development in China is the fact that the Chinese now appear to be taking more seriously international concerns about infringements of intellectual property rights.

Dr David Jones, Asia Pacific representative for Zeneca agrochemicals, said that a "tightening up" on abuses of patents has "given us the confidence to bring in our best technology. Before we were not sure we could defend our technology".

Dr Jones said that in China these days there was "tremendous demand" for high quality herbicides. He expected sales of paraquat to "grow exponentially" as farmers sought more effective ways of reducing their workload.

The new Zeneca agrochemicals plant will produce initially 15m litres of paraquat, sufficient for the manufacture of 3,000 tonnes of Gramoxone – more than enough for China.

Zeneca pharmaceuticals expects that, in time, it will secure a "significant franchise" in the anti-cancer field in China. Among factors weighing in the company's calculations is the likelihood of an increase in various cancers, including colon and rectal cancers, as living standards rise.

Mr David Nelson, general manager of Zeneca Pharma International, said the aim was to "build a broad purpose pharmaceutical company". The Zeneca Sino-Pharm consultancy was merely a first step. Planned initial investment is $20m.

Administration costs push ML Laboratories into red

By Daniel Green

ML Laboratories, one of the larger start-up healthcare companies quoted in London, saw a sharp rise in costs in the first half of 1994 as it moved towards marketing its first product, Icodial, a kidney failure treatment.

Administrative expenses rose to £1.4m in the six months to March 1994, from £894,742 a year earlier, pushing the company to a pre-tax loss of £953,047, compared with a profit of £65,089.

Sales fell from £467,242 to £385,851 because of deferred royalty receipts.

Pre-tax profit was also affected by a fall in investment income from £737,792 to £339,551 as the company ran down its cash pile to pay for the increased administrative costs. The company ended the period with £11.3m (£14.8m) on deposit.

Losses per share were 0.7p, against earnings last time of 0.1p.

Icodial was launched in the UK last month. Mr Stuart Sim, finance director, said there would be no significant sales until the next financial year.

The company is to talks concerning a detailed marketing agreement with Fresenius, the German specialist in dialysis. In March, an interim arrangement gave Fresenius exclusive rights to sell Icodial in all markets apart from Japan.

ML Laboratories was floated on the Third Market in 1987, and moved to the USM to 1990.

● **COMMENT**

ML Laboratories is either wildly overvalued or one of the most extraordinary bargains on the London Stock Exchange. If its drug is a success, it should take a huge slice out of a £500m-a-year market and make its current market capitalisation of almost £300m look puny. Failure means a return to obscurity. The bull story is that ML Labs now has a product on the market, which means that two of the biggest risks – scientific and regulatory – have been overcome. The third risk is marketing, which is being addressed by the deal and continuing talks with Fresenius. Finally, can the entrepreneurs that launched a small company take the business into world market? The details of the Fresenius deal should not only sort out any lingering doubts over marketing, hut demonstrate whether top management has the skills to fight it out at the highest level.

OIS shares fall 18p on warning

By Caroline Southey

A profits warning hy OIS International Inspection, which provides technical inspection services to the construction, petrochemical and power generation industries, knocked a third off the share price yesterday.

Shares in OIS, which came to the market at the end of 1992 at 50p, closed 18p down at 36p.

Mr James Mayne, chairman, said reduced margins and the loss of a number of contracts meant the company expected "no better than a break-even position" on turnover of £19m when it reports interim results in September.

Mr Mayne said the company had already acted to reduce overheads and achieve annual cost savings of more than £1m.

He said the directors believed the steps being taken would "result in a return to profitability in the second half of the year".

However, results for the 1994 year were likely to be significantly lower than last time when pre-tax profits amounted to £2.21m on turnover of £46.7m.

For the six months to June 30 1993 pre-tax profits were £1.44m on turnover of £24.2m.

Mr Mayne said most of the company's operations had suffered from deferred contracts but that the losses had been most keenly felt in the Aberdeen and African locations.

Shell, BP, British Gas and Nuclear Electric are among OIS's customers, while its overseas operations are concentrated in the Middle East, east Asia and Africa.

Brewin Dolphin tops £2.5m

By Simon Davies

Brewin Dolphin, the private client stockbroker, pleased the market with a 94 per cent increase in pre-tax profits from £1.32m to £2.55m for the 27 weeks to June 17.

The sbares, wbicb started trading on June 9, rose 5p to 149p, compared with the flotation price of 150p.

Tbe profits growth was aided by a full six month contribution from its Bell Lawrie snbsidiary, which had provided only two months input in 1993.

In addition, the previous figures were affected by a £330,000 provision, reflecting the cost of the cancellation of Taurus.

Total turnover increased by 46 per cent to £16.8m (£11.5m), belped by strong trading volumes during the first quarter of the year.

Mr John Hall, managing director, said the advisory and execution-only business had been adversely affected by the slowdown in the stock market in the second quarter of the year, but profits were still ahead of the previous year.

The company is paying a 1p interim dividend, which was half the rate it would have paid if it had been listed for the entire period.

It bas undertaken, in tha absence of unforeseen circumstances, to pay a final distribution of 4p.

3i shares get off to buoyant start

By Simon Davies

The flotation of 3i, one of the largest of this year's share offers, provided a pleasant surprise for subscribers yesterday when its shares jumped 20½p to 292½p on their first day of trading.

The shares had been marketed as a quality institutional shareholding rather than a stagging opportunity, and the public offer was only 1.1 times subscribed.

Analysts said that institutions, which had allocations scaled down, must have decided to buy more in the market, helping push the shares to a 7.5 per cent one day gain. The institutional offer, valued at £533.6m, had been 1.7 times subscribed.

"I am pleasantly surprised," said Mr Hamish Buchan, director of equities at NatWest Securities. "But people should bear in mind that small companies have been weak since March 31, and they have not participated in the latest stock market rally."

The FT-SE Small Cap index has fallen 5.9 per cent since 3i's assets – tovestments in small companies – were valued on March 31. Analysts suggested 3i'a assets would have fallen in value by a similar degree.

At the issue price, 3i shares were valued at a 13 per cent discount to their March asset value. The company offered 45 per cent of its shares (261.6m in total), of which three quarters went to institutions and the remainder to the public.

The institutional portion of the offer was well supported, but only a small proportion of the 385,000 private shareholders who registered for a 3i share prospectus, actually applied for shares.

More than 27.7m shares changed hands yesterday, representing 10.5 per cent of the share offer, and 4.7 per cent of the company's total issued shares.

Archer to acquire rival agency

By Richard Lapper

Archer Gronp, the Lloyd's agency, is to acqnire Cox Group, a rival agency.

Cox's principal operating subsidiary is the Cox Tudsbery & Wills members' agency. The acquisition is one of a number of takeovers by bigger agents at the insurance market, which has been hard hit by five years of heavy losses.

Under the proposal, Archer, which has a market capitalisation of about £19m, will issue to Cox shareholders new shares equal to approximately 5 per cent of Archer'a outstanding equity.

Snbject to regulatory approval the deal will be completed during October.

Unipalm exceeds its forecast at flotation

By Graham Deller

Unipalm Group, the Cambridge-based computer communications company which was placed on the main market in March, yesterday reported pre-tax profits of £272,000 for the 12 months to April 30, exceeding the flotation forecast.

The outcome, which compared with profits of £605,000 last time, came on turnover ahead to £10.8m (£8.39m).

As well as its Unipalm interconnection software distribution activities, the company has high hopes for Pipex, a specialist in attaching commercial customers to the Internet – a self-regulating global computer network.

The distribution side reported profits of £716,000 pre-tax, partially offset by losses of £444,000 at Pipex, reflecting substantial investment in "people, equipment and infrastructure" according to the company.

Mr Peter Dawe, managing director, said, however, that Pipex had had "a remarkable year". Turnover jumped from £381,000 to £1.43m. It bad achieved a growth rate of 10 per cent a month with record orders in June. Public interest continued to grow, be said, with more than 250 organisations now using Internet through Pipex.

"We've shown that we've put the foundations in. Now we're building the upper storeys," he said.

Earnings per share emerged at 0.89p, down from 2.9p, hut again beating the company's own estimate at flotation.

Shanks & McEwan chiefs get £761,000 pay-off

By Paul Taylor

Shanks & McEwan'a former finance director and former cbtef execntive, wbo both resigned from the Glasgow-based waste contractor unexpectedly, received a total of £761,000 in compensation payments.

The payments cover Mr Roger Hewitt, tbe chief execntive who resigned in Jannary wben the gronp issued a profits warning, and Mr Alastair Fowler, the finance director who resigned at the end of September. They are disclosed in tbe group's annual report.

The company, whicb last month cut its dividend by 43 per cent after announcing a plunge into the red with pretax losses of £6m for the year to March 26, declined to identify the size of the individual payments.

According to the annual report the compensation paymant includes the estimated £10,000 value of a car.

Wm Low responds to request from Sainsbury

By Neil Buckley

Wm Low, the Scottish supermarket group which is the target of an agreed takeover bid by Tesco, the UK's second-largest supermarket chain, confirmed yesterday it had responded to a reqnest for information from Tesco's bigger rival, J Sainsbury.

Tesco, which in a deal worth £200m is offering 225p in cash for each Wm Low ordinary share and 105½p for each convertible preference share, is expected to issue its offer document this morning.

However, speculation continued to mount yesterday that Sainsbury was preparing to make a counter-bid for the retailer, which has 57 stores and 7 per cent of the Scottish grocery market.

Wm Low said it had responded to a list of questions from Sainsbury – and agreed the terms of a confidentiality letter – giving it the same information it had supplied to Tesco.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Carlisle, Lazard Smaller Equities, Trust of Property Shares.

FUTURE DATES

Interims-	
Britannic Assurance	Aug 17
Derby Trust	Jul 28
Ramsden's (Harry)	Jul 25
Specialeyes	Jul 27
Waste Recycling	Jul 21
Finals-	
Crown Eyeglass	Aug 2

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Brewin Dolphin ......int	1	Oct 1	-	-	-
Inspirations § ......int	0.56	Aug 25	-	-	-
Leslie Wise ......int	1.75	Oct 3	1.75	-	4

Dividends shown pence per share net except where otherwise stated. §USM stock.

COMMODITIES AND AGRICULTURE

London cocoa futures jump to 6½-year highs

By Alison Maitland

Cocoa futures shot to their highest levels for six and a half years in London yesterday, taking over the baton from coffee on largely speculative buying fed by fears that next year's supply deficit could be worse than expected.

The London market took its cue from New York's performance on Friday, when futures surged to four-year highs on a burst of fund buying. Traders pointed to concern that the coming crop in the Ivory Coast, which produces a third of the world's cocoa output, could be hit by dry weather.

The International Cocoa Organisation suggested in February that the deficit, the fourth in a row, could rise to 209,000 tonnes in 1994-95 after a projected 110,000 tonnes this year.

"Coffee has had an effect," said one analyst. "People have realised how explosive things can become when you're in a situation of structural deficit."

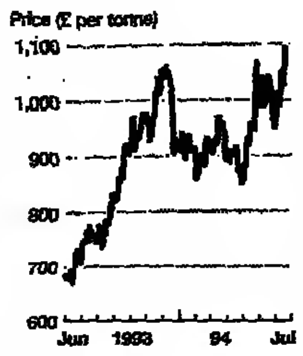
He pointed out, however, that the likely size of the Ivorian crop would not be known for about six weeks.

Buying interest in New York and London was also fuelled by concern that labour unrest in the Nigerian oil industry could spread, and that Brazil, another large producer, might suffer a port strike.

The September position in London broke through the £1,100 mark to a day's peak of £1,112 a tonne but met profit-taking and closed £25 higher at £1,093. New York's September futures position added to Friday's advance in early trading but backed off to $1,508 a tonne in afternoon trading, down $14.

Coffee trading, meanwhile, had a thin day in London, consolidating last week's record gains. The second position closed $53 lower at $3,775 a tonne.

Cocoa



Source: Datastream

Economists urge US farm policy overhaul

By Laurie Morse in Chicago

Important aspects of US farm policy need a substantial overhaul if the US is to preserve its competitive position in world agricultural trade, say Mr Alan Barkema and Mr Mark Drabenstott, economists at the Federal Reserve Bank of Kansas City.

In a paper prepared for the bank's quarterly journal, Economic Review, the authors note that US farm export programmes are heavily skewed toward bulk commodities, where global trade is declining, and ignore fast-growing trade in processed foods. Furthermore, entrenched export subsidy and credit programmes underserve countries with the fastest-growing demand for farm products.

After an intelligent discussion of changing trends in the global trade in farm exports, the authors set out four rather surprising suggestions for US policy reform. They say the time for discussion of these alternatives is now, as policymakers plan farm legislation for the next five years, as part of the 1995 US Farm Bill.

Their paper suggests that rather than continue to devote substantial energy to wrestling down worldwide subsidies, the US should focus on stimulating demand in emerging markets for farm goods. "US agriculture has much to gain from economic and trade policies that boost economic growth in regions like Asia and Latin America," it says.

The authors argue that US domestic farm programmes depress world bulk grain prices while reducing US farmers' competitiveness in world markets. "Eliminating commodity programmes may encourage US farmers to shift to products with higher profit margins and brighter market prospects," they say.

On a closely related issue, the article concludes that programmes that encourage US farmers to set aside acreage, and thus lower production, throttles the highly-competitive US grain handling system and put the US at a worldwide trading disadvantage.

Finally, the authors question whether the $5bn spent on US export credits in recent years has been flowing to the markets with the best long-term trading possibilities. The credits, they say, are often directed toward political, rather than trade, alliances.

A New Agricultural Policy for a New World Market, in The Economic Review, second quarter, 1994, Vol. 79 No. 2. No charge from the Federal Reserve Bank of Kansas City, 925 Grand Boulevard, Kansas City, Missouri, 64198-0001.

UK's overheated fields yield a crop of problems

Early ripening is reducing harvests and hitting the quality of autumn-sown barley

FARMER'S VIEWPOINT

By David Richardson

For those farmers with a tendency towards hay fever and asthma the high pollen count was not the only frustration to result from the recent heatwave. The long hot days also brought forward the grain harvest with some crops of autumn-sown barley having ripeness forced upon them rather than acquiring it gently in the dull conditions we usually seem to get in July.

It is not so much the earliness itself that frustrates – in many ways it is a good thing to get some of the demanding harvest work out of the way. It is the fact that because of premature ripening most of the crops so far gathered are of mediocre quality and weight and therefore of low value.

Admittedly the number of samples submitted to merchants is relatively low at this stage and come from the light, sandy land that is most susceptible to this kind of problem. But reports suggest that grain size is generally small – "like needles" one merchant said the other day as he admitted that from one exceptionally poor lorry load he had had to remove 38 per cent of screenings, the small grains that fall through a screen designed to remove non-viable material.

Clearly this also implies low yields; few of the fields so far combined have apparently produced above 2.5 tonnes an acre (6.25 tonnes a hectare). Production at this level is unlikely to leave a profit, even on farms with the lowest costs. Those of us with rather heavier, more moisture-retentive land, can only hope that our crops, when they are ready for cutting in a few days, will produce better results. But it would be unrealistic to suppose that the early fields had not set at least an approximate pattern for the rest.

There are two main types of barley, grown for distinctly different markets. One is for animal feed and here the farmers objective is to produce the maximum yield and a high protein or nitrogen content. Such barley attracts a low price but can be profitable provided production per acre is high enough. The variety is chosen accordingly.

The second type is for malting into beer, for which specific varieties have also been developed. Here the objective is for a much lower nitrogen content and since this implies smaller applications of fertiliser it normally means accepting a lighter yield. The price paid to the farmer should, in theory and usually in practice, compensate him for the lower yield.

Ever-increasing emphasis on the need for better marketing of farm commodities together with the urge to add value, persuaded rather more farmers than usual to plant malting barley last autumn. Many took advantage of merchants offers to sell it forward on contract at a fixed premium above the price of feed barley. One estimate suggests that up 40 per cent of the malting barley grown for harvesting this year has been sold in this way. Last year the figure was between 25 and 30 per cent.

There are this year, however, two potential difficulties arising from this otherwise healthy move. The first is that because of the weather-related problems with quality, referred to above, a substantial proportion of the barley sold on contract may be of too low a quality to qualify for the full premium prices written into the contracts. Premiums over feed barley are usually between £20 and £30 a tonne, depending on variety, but for that the merchants specify a range of quality standards. They are entitled to cut the price or even reject the grain if those standards are not achieved.

The second problem is that the price of feed barley, at £95 to £98 a tonne, is £10 to £13 per tonne higher at present than was expected when those contracts were agreed. Given that malting contracts are based on feed prices the merchants will have little choice but to pay the extra and to pass it on to the breweries. Cynical malting barley growers, as they deliver their crops over the next few weeks, will be watching very carefully to ensure any deductions for lack of quality are genuine and do not reflect the buoyancy of the feed market.

The rise in the feed barley price and indeed for forward wheat sales (for the wheat harvest will not begin in earnest for another month) can be attributed to two main factors. Planting conditions across northern Europe last Autumn were appallingly wet and the early spring was not much better. It had long been anticipated that yields would be down this harvest and the probability of this has stimulated the price.

In addition the weakness of sterling against other European Union currencies has triggered two small devaluations of the green pound since the beginning of July. These have resulted in compensatory increases in UK guaranteed prices amounting to about 3 per cent. And although open market prices for grain are well above support levels where they apply it all helps to create a firm tone in the market.

Currency movements within the EU have been mainly favourable to UK arable farmers for the past two years, but they can, of course, go the other way. In order to "lock in" an apparently attractive currency position a few large farmers have taken out currency options against forward changes in values. In most changes, so far, these have turned out to be expensive and in the event unnecessary insurance against events that have not happened.

Nevertheless the big banks continue to offer such services and the Morgan Grenfell subsidiary, Record Treasury Management, now offers a hedging facility for EU green rates.

A few major players in the food industry may well use them, but, unlike their American cousins, few UK farmers are ready for the culture change such deals involve. As this year appears to have proved to them, once again, the weather is the final arbiter.

De Beers backs Canadian diamond rush

By Kenneth Gooding, Mining Correspondent

De Beers of South Africa yesterday put "a stamp of approval" on the diamond rush in Canada's Northwest Territories. It agreed to take shareholdings worth a total of C$4m (£1.86m) in two junior exploration companies and to arrange for up to C$500m of finance for a mine on the Yamba Lake prospect in the Lac de Gras area, centre of the diamond rush, if it proved viable.

"Clearly this is going to be one of the premier diamond-producing areas of the world before the end of the century," said Mr Nick Fuller, analyst at Credit Lyonnais Laing.

Mr Charles MacDonald, president of Tanqueray Resources, which owns 50 per cent of the Yamba Lake project, said De Beers made the first approach and he believed that it wanted to move ahead as fast as possible. "We are aligning ourselves with the best group in the [diamond] industry," he said.

CLL's Mr Fuller suggested that, although two other major companies, Broken Hill Proprietary of Australia and the RTZ Corporation of the UK, had about a one-year start, "De Beers wants to show them that it remains king of the diamond business". The two Canadian companies – Tanqueray and Mill City Gold – had extracted good terms and a tight timetable from the South African group.

De Beers has 45 days to re-check in South Africa results from exploration at Yamba Lake. If all is well it will subscribe for C$2m of shares in Tanqueray at C$4.40 each and C$2m of shares in Mill City at C$2.20 each. De Beers must evaluate the five "pipes" so far discovered by September, 1996, complete a feasibility study by the end of 1997, and, if it decides to bring a mine into production, will procure up to C$500m of financing to earn a 51 per cent interest in the project area.

MARKET REPORT

Producer sales cap palladium price surge

Sales of PALLADIUM believed to be from Russia – the biggest producer – capped prices after a rise to fresh five-year highs yesterday afternoon.

Palladium was fixed at $147.30 a troy ounce, up $1.05, helping its sister metal PLATINUM to a three-month high of $416.75. Dealers said the early price surge reflected investment fund buying on the New York futures markets where the rally in the platinum group metals began on Friday.

GOLD and SILVER silver benefitted from the trend.

Compiled from Reuters

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1514-6	1530-2
Previous	1529-30	1544-45
High/low	1513/1512	1547/1525
AM Official	1513-3.5	1533-4
Kerb close		1528-8.5
Open int.	290,944	
Total daily turnover	52,504	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1510-20	1535-45
Previous	1515-25	1535-40
High/low	1515/1510	1545
AM Official	1510-15	1535-40
Kerb close		1536-46
Open int.	2,730	
Total daily turnover	765	

■ LEAD ($ per tonne)

Close	592.5-3.5	604.4.5
Previous	591.5-2.5	602-3
High/low		615/602
AM Official	592-3	602.5-3.0
Kerb close		613-5
Open int.	42,848	
Total daily turnover	8,342	

■ NICKEL ($ per tonne)

Close	6335-45	6430-40
Previous	6370-80	6460-5
High/low	6351	6510/6410
AM Official	6350-2	6449-51
Kerb close		6420-30
Open int.	60,527	
Total daily turnover	11,070	

■ TIN ($ per tonne)

Close	5435-45	5505-15
Previous	5440-50	5505-10
High/low	5440/5430	5540/5500
AM Official	5430-40	5500-05
Kerb close		5520-30
Open int.	18,680	
Total daily turnover	4,132	

■ ZINC, special high grade ($ per tonne)

Close	983-4	1007-8
Previous	985.5-6.5	1008-9
High/low		1012/1000
AM Official	984-5	1008.5-9.0
Kerb close		1010-11
Open int.	103,073	
Total daily turnover	9,902	

■ COPPER, grade A ($ per tonne)

Close	2453.5-4.5	2484-5
Previous	2470.5-1.5	2483.5-4.0
High/low	2461/2451	2485/2463
AM Official	2462-3	2473-4
Kerb close		2472-3
Open int.	230,163	
Total daily turnover	39,548	

■ LME AM Official £/$ rate: 1.5644

LME Closing £/$ rate:

Spot:1.5628 3 mths:1.5612 6 mths:1.5607 9 mths:1.5593

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	low	Open int	Vol
Jul	112.00	-	112.00	111.25	2,033	509
Aug	112.10	-0.05	112.10	112.10	760	283
Sep	112.43	-0.06	112.60	111.65	32,300	6,099
Oct	112.10	-	-	-	335	11
Nov	111.70	+0.05	-	-	245	-
Dec	111.25	+0.10	111.20	110.60	9,601	774
Total					51,399	7,808

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	386.30-386.70	
Opening	385.70-386.10	
Morning fix	386.40	246.901
Afternoon fix	386.50	247.044
Day's High	386.60-387.20	
Day's Low	385.70-386.10	
Previous close	385.00-385.40	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	3.90	6 months	4.48
2 months	4.05	12 months	4.88
3 months	4.11		

Silver Fix	p/troy oz.	US cts equiv.
Spot	336.35	525.50
3 months	340.55	531.55
6 months	344.85	538.10
1 year	355.60	553.75
Gold Coins	**$ price**	**£ equiv.**
Krugerrand	391-394	250-253
Maple Leaf	397.40-399.90	-
New Sovereign	90-93	57-60

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Jul	385.7	-0.1	-	-	-	-
Aug	386.2	-0.2	387.3	386.2	66,781	16,060
Sep	387.7	-0.2	388.5	388.0	-	-
Oct	389.3	-0.2	390.4	389.2	6,403	552
Dec	392.5	-0.2	393.6	392.4	34,901	1,462
Feb	395.9	-0.2	396.5	396.5	9,021	125
Total					159,781	19,367

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jul	419.0	+2.8	421.0	414.5	175	-
Oct	420.5	+2.8	424.5	418.0	18,755	3,997
Jan	424.1	+2.8	426.0	422.0	2,346	272
Apr	427.6	+2.8	431.0	425.0	1,778	11
Jul	431.6	+2.8	-	-	1	1
Oct	435.6	+2.8	-	-	1	1
Total					23,056	4,282

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Sep	148.50	-0.05	149.50	148.00	4,682	181
Dec	147.75	-0.05	148.50	148.00	872	14
Mar	147.25	-0.05	148.50	148.50	119	-
Total					5,673	195

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

Jul	524.4	-0.1	527.0	524.5	252	148
Aug	526.5	-0.3	-	-	-	-
Sep	527.2	-0.3	532.5	526.5	79,336	13,621
Dec	534.5	-0.3	540.0	533.5	24,593	918
Jan	538.1	-0.3	-	-	35	2
Mar	542.5	-0.3	546.5	541.5	35	9
Total					123,158	14,715

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Aug	19.35	-0.54	19.84	19.30	56,232	45,749
Sep	18.93	-0.45	19.38	18.91	97,286	58,224
Oct	18.69	-0.35	18.98	18.65	44,860	17,069
Nov	18.48	-0.33	18.58	18.46	30,100	8,729
Dec	18.33	-0.33	18.54	18.31	40,916	3,488
Jan	18.33	-0.24	18.36	18.31	23,673	1,838
Total					431,657	140,498

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Sep	17.45	-0.32	17.68	17.30	89,554	19,033
Oct	17.28	-0.27	17.50	17.17	17,865	6,141
Nov	17.12	-0.35	17.38	17.12	9,930	2,248
Dec	17.06	-0.34	17.30	17.03	13,183	2,069
Jan	16.98	-0.34	17.24	16.97	5,172	596
Feb	17.16	-0.09	17.16	17.16	2,333	3
Total					136,978	39,090

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Aug	48.90	-0.92	49.80	48.50	23,838	10,015
Sep	49.75	-0.83	50.50	49.40	24,053	6,191
Oct	50.60	-0.83	51.10	50.85	10,378	1,426
Nov	51.80	-0.68	52.25	51.70	8,943	538
Dec	52.75	-0.68	53.15	52.50	20,137	1,537
Jan	53.30	-0.68	53.75	53.20	12,118	450
Total					121,614	22,853

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Aug	152.50	-3.00	155.00	152.50	27,784	7,881
Sep	155.50	-3.25	158.00	155.50	14,065	2,541
Oct	158.75	-3.00	161.00	158.50	10,712	1,025
Nov	160.75	-3.00	162.50	160.50	7,982	313
Dec	162.50	-3.00	164.50	162.50	15,009	488
Jan	164.00	-2.50	165.50	163.50	5,735	796
Total					97,154	13,118

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Open int	Vol
Aug	1.969	+0.021	1.975	1.940	-	-
Sep	2.025	+0.007	2.030	2.003	-	-
Oct	2.068	+0.005	2.080	2.055	-	-
Nov	2.170	+0.005	2.175	2.160	-	-
Dec	2.275	+0.005	2.280	2.270	-	-
Jan	2.286	+0.003	2.283	2.275	-	-
Total					N/A	N/A

■ UNLEADED GASOLINE

NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Aug	53.75	-1.03	54.60	53.60	40,041	18,832
Sep	53.90	-0.05	54.90	53.70	28,368	12,982
Oct	52.55	-0.81	53.10	52.45	8,413	3,536
Nov	51.15	-0.86	51.60	51.00	7,842	1,468
Dec	58.15	-0.71	56.40	56.00	4,750	1,206
Jan	56.21	-	-	-	1,964	22
Total					91,369	37,927

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	103.35	+1.15	103.50	103.20	408	40
Nov	104.20	+1.20	104.40	103.50	2,333	94
Jan	106.25	+1.25	106.40	106.00	1,456	47
Mar	107.95	+1.20	108.00	108.00	613	30
May	109.50	+1.35	-	-	599	-
Jul	111.75	+1.25	111.75	111.55	125	-
Total					5,534	233

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Jul	321/0	+8/0	321/0	314/0	2,870	3,080
Sep	328/0	+7/2	329/0	321/0	103,140	12,855
Dec	341/0	+7/2	341/4	334/4	151,340	12,535
Mar	345/4	+7/0	345/4	338/4	30,740	1,156
May	339/6	+6/4	340/2	337/0	1,355	110
Jul	324/0	+4/4	324/0	321/4	3,030	135
Total					292,495	29,879

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Jul	238/6	+2/0	238/4	237/0	23,285	12,065
Sep	225/2	+1/0	226/0	224/0	286,315	53,955
Dec	224/6	+1/4	225/2	223/2	580,135	76,100
Mar	233/0	+1/2	233/2	232/0	92,000	7,100
May	239/6	+0/6	239/2	238/2	29,840	3,540
Jul	242/4	+0/6	242/6	241/6	30,835	4,570
Total					1,049M	158,280

■ BARLEY LCE (£ per tonne)

Sep	100.45	+0.15	-	-	201	-
Nov	102.45	+0.45	102.50	102.25	486	33
Jan	103.75	+0.80	-	-	28	-
Mar	104.00	-	-	-	38	-
May	106.00	-	-	-	1	-
Total					754	33

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Jul	617/6	+3/6	622/2	617/4	9,825	6,065
Aug	612/4	+1/2	618/0	611/4	126,340	66,740
Sep	591/2	+1/2	597/2	590/0	65,925	9,425
Nov	575/6	-1/0	582/2	574/4	349,090	93,845
Jan	583/2	-0/2	589/0	583/0	45,065	5,085
Mar	591/4	-0/4	597/2	591/0	17,275	4,140
Total					683,375	182,375

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Jul	24.83	+0.18	24.90	24.68	1,133	341
Aug	24.85	+0.21	24.90	24.65	19,579	4,808
Sep	24.74	+0.14	24.80	24.55	16,613	2,236
Oct	24.18	+0.00	24.23	24.00	11,943	1,000
Dec	23.75	-	23.89	23.61	32,207	4,548
Jan	23.80	-	23.85	23.66	3,547	171
Total					93,914	13,528

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Jul	183.9	+0.9	185.2	183.3	2,269	989
Aug	181.8	-0.3	183.7	181.1	23,804	5,321
Sep	179.9	-0.5	182.0	179.8	16,317	1,721
Oct	177.2	-0.3	179.6	177.2	9,208	1,225
Dec	176.7	-0.4	178.8	176.6	25,312	3,263
Jan	177.0	-0.8	179.5	177.0	2,690	496
Total					85,589	13,626

■ POTATOES LCE (£/tonne)

Nov	90.0	-	-	-	-	-
Mar	105.0	-	-	-	-	-
Apr	233.5	+24.2	235.0	224.3	1,084	305
May	255.0	+30.0	-	-	-	-
Jun	107.5	-	-	-	-	-
Total					1,084	305

■ FREIGHT (BIFFEX) LCE ($10/index point)

Jul	1414	+14	1410	1405	565	17
Aug	1367	+12	1370	1365	754	72
Sep	1392	+20	1385	1380	103	4
Oct	1408	+14	1405	1400	437	6
Jan	1415	+2	1415	1415	265	1
Apr	1435	+5	1430	1430	101	1
Total					2,274	121

	Close	Prev
BFI	1418	1412

Tea

There was good demand, reports the Tea Broker's Association. Bright East Africans were well supported although prices were sometimes lower. Coloury mediums were strong and often gained several pence, while plainer Africans tended easier. Brighter ceylons were dearer, but plain bop's and poor leaf sorts were easier. Ceylons were irregularly easier, but coloury Africans were firm to dearer. Quotations best available 265p/kg. nom, good 158p/kg., good medium 148p/kg., medium 124p/kg., low medium 89p/kg. The highest price realised this week was 265p for a Rwanda pf.1

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	1091	+45	1097	1087	1,008	122
Sep	1093	+25	1112	1092	16,699	4,446
Dec	1105	+22	1120	1101	28,855	3,766
Mar	1125	+22	1137	1120	28,439	1,265
1,2	1129	+18	1145	1130	9,854	194
Jul	1137	+21	1136	1135	3,851	10
Total					102,852	9,912

■ COCOA CSCE (10 tonnes; $/tonnes)

Sep	1502	-20	1543	1495	37,886	13,935
Dec	1546	-11	1580	1532	16,742	5,073
Mar	1565	+7	1600	1565	7,990	490
May	1585	+7	1612	1585	2,949	4
Jul	1605	+7	-	-	2,355	63
Sep	1625	+7	-	-	1,092	6
Total					74,565	18,671

■ COCOA (ICCO) (SDR's/tonne)

Jul 15	Price	Prev. day
Daily	1089.78	1040.61
10 day average	N/A	N/A

■ COFFEE LCE ($/tonne)

Jul	3758	-57	3800	3760	713	47
Sep	3778	-50	3830	3765	19,105	2,796
Nov	3773	-60	3835	3770	8,168	1,521
Jan	3783	-55	3815	3785	10,655	1,180
Mar	3770	-55	3785	3755	3,619	172
May	3790	-35	3790	3775	885	59
Total					43,168	5,775

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Jul	237.45	+2.70	238.00	237.00	126	16
Sep	241.05	+2.20	243.40	235.25	24,198	6,331
Dec	244.25	+9.00	244.25	238.50	11,818	593
Mar	244.00	+8.00	244.00	241.75	5,209	565
May	244.40	+9.00	244.40	244.40	1,599	144
Jul	245.40	+9.00	245.10	245.10	315	-
Total					43,515	7,650

■ COFFEE (ICO) (US cents/pound)

Jul 15	Price	Prev. day
Comp. daily	209.35	207.55
15 day average	177.75	171.82

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

Oct	12.37	+0.38	-	-	1,200	-
Jan	11.82	-	-	-	-	-
Mar	11.98	+0.35	-	-	90	-
Total					1,290	-

■ WHITE SUGAR LCE ($/tonne)

Oct	320.20	+1.90	320.50	316.00	11,299	526
Dec	316.30	+1.50	316.00	315.00	934	42
Mar	314.80	+1.00	314.50	312.50	3,719	87
May	314.20	+1.20	313.00	313.00	363	13
Aug	313.60	+1.16	312.50	312.50	347	6
Oct	300.30	-	300.00	300.00	172	3
Total					20,829	677

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Oct	12.09	+0.04	12.10	11.98	66,133	21,992
Mar	11.83	+0.01	11.83	11.74	28,902	5,465
May	11.72	+0.10	11.72	11.84	8,237	865
Jul	11.63	+0.13	11.64	11.58	2,512	100
Oct	11.50	+0.07	11.45	11.40	1,077	214
Mar	11.47	+0.07	-	-	83	-
Total					105,944	28,718

■ COTTON NYCE (50,000lbs; cents/lbs)

Aug	70.25	+2.00	-	-	5	-
Oct	71.51	+2.00	71.51	70.20	8,279	1,163
Dec	71.51	+2.00	71.51	70.01	30,391	5,594
Mar	72.75	+2.00	72.75	71.30	7,223	153
May	73.50	+2.00	73.50	72.15	4,226	148
Jul	74.25	+1.85	74.25	73.00	2,414	5
Total					53,785	7,085

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Jul	88.05	-0.45	88.75	88.00	40	44
Sep	91.25	-0.75	92.60	90.60	14,439	1,092
Nov	94.75	-0.25	95.85	94.25	3,341	433
Jan	98.00	-0.50	99.25	97.50	4,099	202
Mar	101.80	-0.45	102.50	101.50	2,414	65
May	105.80	-0.45	106.60	106.00	548	15
Total					25,068	1,861

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Jul 18	Jul 15	month ago	year ago
2150.7	2179.0	2026.5	1702.3

■ CRB Futures (Base: 4/9/56=100)

Jul 15	Jul 14	month ago	year ago
233.50	231.73	239.38	215.18

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Aug	69.325	-0.450	70.650	69.100	27,159	5,886
Oct	71.675	-0.100	72.475	71.300	21,002	3,592
Dec	71.150	-0.500	72.025	70.850	12,001	1,556
Feb	70.550	-0.575	71.300	70.300	8,116	1,139
Apr	71.475	-0.550	72.300	71.450	5,085	288
Jun	68.500	-0.350	69.300	68.500	1,115	43
Total					75,519	12,506

■ LIVE HOGS CME (40,000lbs; cents/lbs)

Jul	46.300	-0.225	46.450	46.150	912	421
Aug	44.500	-0.075	44.800	44.175	9,892	2,571
Oct	41.150	-0.275	41.325	41.000	9,835	1,853
Dec	40.750	-0.150	40.950	40.600	4,383	517
Feb	40.375	-	40.550	40.300	1,158	111
Apr	39.625	+0.225	39.750	39.350	926	79
Total					27,881	5,416

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Jul	32.850	+0.050	32.850	31.600	202	305
Aug	32.325	-0.425	32.850	31.550	5,054	1,552
Feb	43.100	-0.850	44.400	42.500	2,878	574
Mar	42.500	-0.900	43.750	42.300	104	55
May	43.500	-0.900	44.000	43.500	48	4
Jul	45.400	-0.750	-	45.400	28	1
Total					8,116	2,498

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Sep	Dec	Sep	Dec
1525	56	81	52	82
1550	45	70	66	96
1575	35	61	81	110
■ COPPER (Grade A) LME	**Sep**	**Dec**	**Sep**	**Dec**
2400	118	135	35	87
2450	87	110	54	111
2500	62	88	78	138
■ COFFEE LCE	**Sep**	**Nov**	**Sep**	**Nov**
3600	478	620	301	447
3650	454	596	326	-
3700	429	573	351	-
■ COCOA LCE	**Sep**	**Dec**	**Sep**	**Dec**
1000	102	151	9	46
1050	66	121	23	66
1100	38	95	45	90
■ BRENT CRUDE IPE	**Aug**	**Sep**	**Aug**	**Sep**
1700	-	81	-	29
1750	-	66	-	57
1800	-	30	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Sep)

		+or-
Dubai	$16.03-6.06w	-0.40
Brent Blend (dated)	$17.37-7.39	-0.62
Brent Blend (Sep)	$17.37-7.39	-0.40
W.T.I. (1pm est)	$19.40-9.42	-0.395

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$185-187	-1
Gas Oil	$149-151	-3
Heavy Fuel Oil	$96-98	-1
Naphtha	$166-168	-2.5
Jet fuel	$164-166	-4

Petroleum Argus Estimates

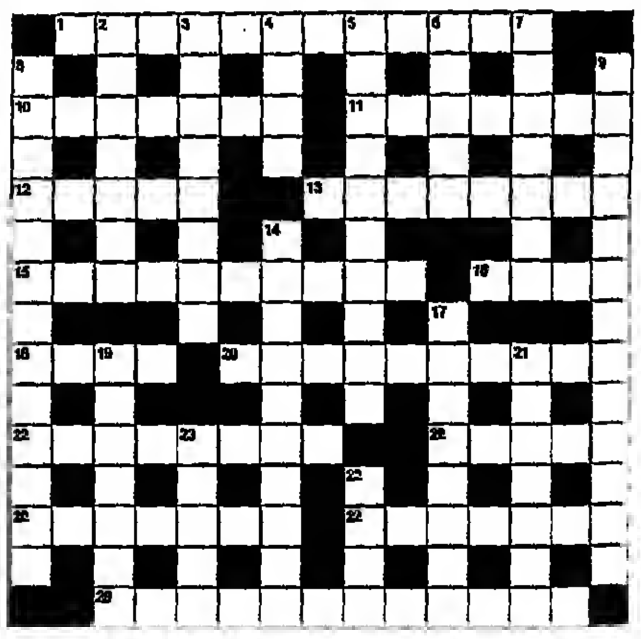
■ OTHER

Gold (per troy oz)‡	$386.50	+1.3
Silver (per troy oz)‡	528.5c	+5
Platinum (per troy oz.)	$416.75	+6.50
Palladium (per troy oz.)	$147.30	+1.05
Copper (US prod.)	116.0c	
Lead (US prod.)	37.75c	
Tin (Kuala Lumpur)	13.65m	+0.11
Tin (New York)	253.5c	
Zinc (US Prime W.)	Unq.	
Cattle (live weight)†	N/A	
Sheep (live weight)†♣	N/A	
Pigs (live weight)	N/A	
Lon. day sugar (raw)	$305.0	+7.7
Lon. day sugar (wte)	$345.0	+1.5
Tate & Lyle export	£307.0	+4.0
Barley (Eng. feed)	£99.50t	
Maize (US No3 Yellow)	$143.5	
Wheat (US Dark North)	£180.0	
Rubber (Aug)♥	87.50p	+2.0
Rubber (Sep)♥	85.50p	+2.0
Rubber KL RSS No1 Aug	321.5m	+1.5
Coconut Oil (Phil)§	$590.0z	+5.0
Palm Oil (Malay.)§	$505.0q	+5.0
Copra (Phil)§	$405.0	+5.0
Soyabeans (US)	£177.0q	
Cotton Outlook 'A' Index	50.70c	
Wooltops (64s Super)	421p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. l Jul/Aug. q Aug. z Aug/Sep. w Sep. ♥ London Physical. § CIF Rotterdam. ‡ Bullion market close. ♣ Sheep (Live weight prices). * Change on week, provisional prices.

CROSSWORD

No.8,509 Set by ADAMANT



ACROSS

1 Anything about damaging her foot was premeditated (12)
10 Mass in high-pitched quaver (7)
11 A menial changed the plates (7)
12 Claim to be morally justified (5)
13 At site of famous tomb I ran around in the fields (8)
15 Tell about one cut out to create the network (10)
16 Narcotic – costing a penny on the border? (4)
18 Insubstantial but excellent lines (4)
20 A descant perhaps might be too taxing (10)
22 Negotiate about cold drug (8)
24 Right round the waist (5)
26 Falls back again on the artist (7)
27 Bring about a New Order (7)
28 Concerned with new students on the way back getting food (12)

DOWN

2 Goods marked "Hult"? (7)
3 Steal from Stoic movement for dancing in the streets (8)
4 The point came afterwards (4)
5 Riot by gaol wreckers was considered a duty (10)
6 Magazine coming up with mother's letter (5)
7 Capable of stretching the numbers that lie around (7)
8 Begin to tear round other team and get top billing (4,9)
9 Mean the girl is shop-lifting? (5,8)
14 Black market (5,5)
17 King Cole in dramatic arena might lose the flow (8)
19 Locks from Russia (3,4)
21 Emergency transport on trial if there's an explosion (3,4)
23 After tea the fellows talk rubbish (5)
25 Car crash in front of hotel entrance (4)

Solution to Saturday's prize puzzle on Saturday July 30.
Solution to yesterday's prize puzzle on Monday August 1.

LONDON STOCK EXCHANGE

MARKET REPORT

Shares turn higher on interest rate optimism

By Terry Byland, UK Stock Market Editor

The London stock market's new 10-day rolling settlement system got off to a smooth start yesterday, with no sign that trading volumes were affected to any great extent. Share prices traced an uncertain pattern, taking their lead from tha bond markets, which turned higher in the second half of the session.

At the close the FT-SE 100 Index was 7.2 np at 3,082, and responding to activity in stock index futures, where the September contract on the Footsie was within 3 points of 3,100. London markets turned higher in the second half of the session after comments from a member of the Bundesbank council raised hopes that the German central bank may decide to reduce its key interest rates when its policy council meets on Thursday.

Equities opened nervously at the opening of a week which brings a heavy list of economic data from the UK, Germany and the US. With investors still nervous over the performance of the dollar and European bonds, markets are likely to focus on tomorrow's testimony to Congress by Mr Alan Greenspan, chairman of tha Federal Reserve Board, as well as on the German M3 money supply news expected this week and the meeting at the Bundesbank.

In early trading, the Footsie was down by about 14 points, unsettled by falls in British government bonds as they awaited details of the bond auction which was announced late on Friday. Traders commented that the big securities houses, having established soma excellent paper profits over the previous three trading aessions, were inclined to hold back and watch the European bond markets for a lead.

Shares began to steady after a member of the Bundesbank council suggested that inflation forecasts might be lowered. Later, the Bundesbank said it would hold a press conference after its Thursday policy meeting, which is the last before the summer break. Both developments were taken optimistically by the bond markets and equities soon followed suit.

The improvement in share prices was very modest but the Footsie crawled to a net gain of 10 points in the early afternoon before slowing down as Wall Street made an equally sluggish start – the Dow Jones Industrial Average showing a 5-point fall in UK hours.

However, support spread across the broad range of the market, lifting the FT-SE Mid 250 Index by 9 points to 3,560.3. The final picture was still somewhat erratic, with media stocks standing out strongly as expectations of an upturn in advertising revenues brought determined buying in relatively thin markets.

Optimism over the outlook for interest rates helped some retail stocks, as well as bringing sharp rises in those building and construction shares with exposure to the German economy.

Banking shares, too, continued to respond to hopes that domestic interest rates can at least be kept at present levels until the end of the year; lower interest rates have helped the banks' bad debt lists as well as taking some of the pressure off their customers. The insurance sector appeared unaffected by press suggestions of further problems with pension transfer policies, which already threaten the industry with significant compensation liabilities.

Trading volume, as measured by the Seaq electronic network, totalled a respectable 518m shares, with around 58 per cent of the figure coming from non-Footsie stocks. On Friday, 856.4m shares moved through Seaq, returning net worth of £1.57bn, comfortably at the higher end of daily averages.

● Following the opening yesterday of the Stock Exchange 10-day rolling settlement system, the Account Dealing Dates table, previously carried in this column, has been discontinued.

FT-SE-A All-Share Index

Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover

■ **Key Indicators**

Indices and ratios

FT-SE 100	3082.0	+7.2
FT-SE Mid 250	3560.3	+9.0
FT-SE-A 350	1549.5	+3.7
FT-SE-A All-Share	1536.11	+3.61
FT-SE-A All-Share yield	3.86	(3.87)
FT Ordinary index	2405.3	+4.7
FT-SE-A Non Fins p/e	19.38	(19.33)
FT-SE100 Fut Sep	3098.0	+7.0
10 yr Gilt yield	8.25	(8.29)
Long gilt/equity yld ratio:	2.17	(2.18)

Best performing sectors

1	Other Financial	+1.5
2	Insurance	+1.2
3	Retailers, Food	+1.0
4	Spirits, Wines & Ciders	+1.0
5	Leisure & Hotels	+0.8

Worst performing sectors

1	Electron & Elect Equip	-1.3
2	Engineering, Vehicles	-0.8
3	Gas Distribution	-0.7
4	Electricity	-0.6
5	Household Goods	-0.5

Strong first day for 3i

Venture capital group 3i was a sprightly performer on its first day of trading following the flotation of 45 per cent of the equity. Heavy institutional demand ensured that the stock closed well above its issue price on turnover of 27.5m shares.

The group is capitalised at £1.7bn and consequently expected to be an early candidate for entry into the FT-SE 100 Index. As such, it would be a vital component of investment institutions' portfolios.

The bookbuilding process saw £1.2bn of demand for the £530m of stock issued to institutions at 272p a share. The remaining £180m of stock went to retail investors, and the shares, which began trading at 283p, ended the day at 292½p.

Although tha flotation was set at a 13.5 per cent discount to net asset value, there was a certain amount of relief at the level of demand. Analysts said the asset value was calculated at 314p a share at the end of March but had probably fallen since then, thus reducing the discount.

Mr Hamish Buchan of NatWest Securities said: "This is a very good result. Maybe the market is beginning to see 3i as a small companies' specialist, rather than a venture capital specialist."

Mail reports

Daily Mail & General Trust "A" bounced 7 to 1000p as the market got wind of reports that it was poised to onwind its loss-making stake in US multi-media group Whittle Communications.

DMGT announced previously that this year's profits would be down by £20m because of losses at Whittle, prompting S.G. Warburg to cut its full-year forecast to £62m. Yesterday a US trade press article claimed Whittle was offloading its problem section to Reuters Holdings and selling half of its educational TV service to an investment fund managed by Goldman Sachs. Analysts said the move would not help this year's DMGT numbers but could provide a boost next year. Reuters lost 1 at 476p.

DIY worries

Stocks with home improvement interests weakened in response to reports of expansion plans by US DIY group Home Depot. Ladbroke, owner of the Texas chain, slipped 3 to 175p, B&Q parent Kingfisher declined 7 to 527p and Do It All co-owner Boots fell 11 to 538p. Boots partner W.H. Smith was the one bright spot, managing a rise of 5 to 481p.

However, stores specialists were mostly sceptical over the US group's impact on the UK market. One said that Home Depot was aware of the difficult trading environment in UK DIY and would more likely be targeting the German and French markets as the focus of its European strategy. In addition, the US company favours large store formats, which could run into planning difficulties in the UK.

Boots was further undermined by weekend press reports that a consortium of institutions was considering bidding for the company's drugs division. The suggestion was met with general incredulity by analysts, who pointed out that the offshoot was most likely to be bought by a kindred business, and who also expressed surprise that the originally mooted price of £1bn had apparently dropped to between £600m to £700m, according to the reports.

Media conglomerate Pearson strengthened 22 to 660p, making a gain of almost £1 a share over the past two weeks. Recent underperformance has been redressed by a spate of buy recommendations and optimism that the conglomerate will have a significant voice in the new Channel Five television station.

Wm Low delivered J Sainsbury the information requested by the country's biggest supermarket group – a move which could trigger the anticipated contest for the Scottish company following the friendly £154m bid from Tesco last week. Sainsbury's mulling gave the sector a chance to pause for breath after last week's heightened activity, with Low's shares adding just 3 to 256p, Tesco gaining 5½ to 238½p and Sainsbury edging forward a half-penny to 397½p.

Strong half-time results from Coca-Cola and the continuing hot weather helped Cadbury Schweppes to a rise of 7½ to 451½p, with sugar processor Tate and Lyle chipping in 5 to 415p. Unilever slipped 5 to 1005p as the soap wars saga with arch-rival Proctor and Gamble rumbled on.

Buying of Wellcome, ahead of interim results on Thursday, was boosted by a revival of speculation that the company was a takeover or merger target. The company is changing its year-end and reporting figures for the four months to the end of June. The shares lifted 13 to 629p. Elsewhere in the sector, SmithKline Beecham, which reports full-year figures today, fell 6 to 394p on profit-taking.

High street lending banks Barclays and Lloyds were pulled in different directions on switch advice from one securities house. Barclays was off 5 at one stage after Lehman Brothers downgraded the stock from buy to hold. However, the shares picked up with the market to close a penny higher at 566p. Meanwhile, Lehman upgraded Lloyds on the expectation that it will successfully merge with the Cheltenham and Gloucester building society and boost its earnings by 12 per cent in the first year.

Also, SGST reiterated its buy stance on Lloyds and the shares rose 9 to 566p.

Several stocks with hotel interests benefited from recent news on the improving trading outlook. Forte put on 8½ to 230p, Bass 10 to 555p and Whitbread 12 to 553p ahead of its agm statement today.

Engineering group Wagon Industrial closed a penny ahead at 500p, as NatWest Securities said its rating remained undemanding, although the sticking point was the yield.

A stock overhang, together with general profit-taking, left shares in GKN, trailing 11 to 609p. It was also profit-taking that weakened Siebe, the shares closing 9 down at 588p, after trade of 1.8m. A two-way pull in FKI brought volume of 2.4m as the shares closed unchanged at 180p, after the group announced disposals of £46m. One market watcher said: "this is a good deal as it reduces debt and enables it to pursue its acquisition policy."

Negative weekend press comment left conglomerate Tomkins 3 off at 221p.

Confirmation from dry cleaning company Sketchley that one of its two executive deputy chairmen is to leave the company cast a shadow over the stock. The shares eased 5 to 105p.

MARKET REPORTERS: Peter John, Christopher Price, Joel Kibazo.

■ Other statistics, Page 21

NEW HIGHS AND LOWS FOR 1994

EQUITY FUTURES AND OPTIONS TRADING

US buying support and a rally in bonds combined to keep stock index futures moving ahead in a session noted for its low turnover, *writes Joel Kibazo.*

The September contract on the FT-SE 100 Index opened at 3,086 and moved gently ahead on sporadic buying from US institutions for the next two hours.

A sell order, together with a brief retreat in UK gilts and European bonds, saw the contract decline to hit a day's low of 3,065 at mid-morning. However, this turned out to be only a brief setback and September recovered to move ahead for the rest of the session, helped by the turnround in bonds.

Bear closing and a lack of sellers were said to have contributed to a further advance by the contract in the afternoon. Having maintained a strong premium to cash throughout the day, September finished at 3,098, around 10 points above its fair value premium to cash of about 6 points. Volume remained low at 10,737 lots.

Turnover in the traded options was a healthy 32,291 contracts, though lower than Friday's total.

The FT-SE 100 option saw business of 10,716 lots and the Euro FT-SE 3,352. BT was the busiest stock option with a total of 3,145 contracts traded. The total included a single trade of 3,000 lots in the August 420 puts.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	3086.0	3098.0	+7.0	3105.0	3065.0	10737	49405
Dec	-	3108.0	+7.0	-	-	9	1603

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

Sep	-	3560.0	+10.0	-	-	-	4435

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

Sep	3,570.0	636

All open interest figures are for previous day. † Exact volume shown.

■ FT-SE 100 INDEX OPTION (LIFFE) (*3082) £10 per full index point

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

TRADING VOLUME

■ Major Stocks Yesterday

FT - SE Actuaries Share Indices — The UK Series

	Jul 18	Day's chge%	Jul 15	Jul 14	Jul 13	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3082.0	+0.2	3074.8	3050.4	3005.3	2842.9	4.05	6.84	17.31	70.03	1154.16
FT-SE Mid 250	3560.3	+0.3	3551.3	3529.7	3493.7	3211.3	3.48	5.81	20.71	80.57	1318.92
FT-SE Mid 250 ex Inv Trusts	3582.0	+0.2	3553.9	3534.1	3498.4	3225.9	3.62	6.09	19.28	83.80	1316.49
FT-SE-A 350	1549.5	+0.2	1545.8	1534.2	1513.1	1422.2	3.92	6.60	17.99	35.17	1188.12
FT-SE SmallCap	1800.41	+0.2	1797.25	1788.01	1780.89	1633.03	3.12	4.32	30.33	31.84	1357.57
FT-SE SmallCap ex Inv Trusts	1770.38	+0.1	1767.81	1760.94	1754.33	1633.21	3.30	4.78	28.01	32.73	1357.67
FT-SE-A ALL-SHARE	1536.11	+0.2	1532.50	1521.25	1501.43	1408.73	3.86	6.44	18.52	34.94	1186.21

■ FT-SE Actuaries All-Share

■ Hourly movements

■ FT-SE Actuaries 350 Industry baskets

LONDON EQUITIES

LIFFE EQUITY OPTIONS

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	41	23	6
Other Fixed Interest	9	2	13
Mineral Extraction	63	64	73
General Manufacturers	163	93	395
Consumer Goods	54	39	97
Services	127	79	295
Utilities	29	11	5
Financials	81	84	184
Investment Trusts	158	27	281
Others	38	54	40
Totals	764	486	1394

Data based on those companies listed on the London Share Service.

TRADITIONAL OPTIONS

LONDON RECENT ISSUES: EQUITIES

RIGHTS OFFERS

FINANCIAL TIMES EQUITY INDICES

FT GOLD MINES INDEX

BANKS

[illegible]

BREWERIES

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD MANUFACTURERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

MERCHANT BANKS

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

PHARMACEUTICALS

PRINTING, PAPER & PACKAGING

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

TRANSPORT - Cont.

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	1994 high	1994 low	Mkt CapEm	Yld Gr's	P/E
Anglo Am Ind		£26¾	+1	£27½	£13½	1,743	2.8	19.9
Bedlow	Z	24⅝	—	£5⅞	£3⅞	621.6	0.7	-
Gold Flds Prop R		195	—	108	78	18.5	8.7	9.1
HK Props.		80	—	95	65	3.42	10.5	34.9
SASOL		388	+3	388	280	2,196	4.9	-
SA Brews		612⅓	+⅛	£15⅞	£19	3,483	2.2	20.4
Tiger Oats	†	687	—	898	538	967.9	2.5	13.4
Tongaat-Hulett		670	—	738¼	427½	508.8	2.3	18.7

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- \- Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ✱ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- ‖ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ◊ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
J Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on IIMR 'Headline Earnings'
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualise yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

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FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. An international service is available for callers outside the UK, annual subscription £250 stg. Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

AIB Unit Trust Managers Limited (1000)F
51 Belmont Rd, Uxbridge, Middx UB8 1RZ 0895 259783

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
AIB Grofund American	5	154.0	155.2	163.1	-0.10	0.25
AIB Grofund Equity	5	229.4	232.1	245.7	-0.40	1.56
AIB Grofund Euro	5	196.4	198.8	207.2	+0.60	0.08
AIB Grofund Fixed Interest	3	109.6	111.0	116.8	—	2.11
AIB Grofund Gilt	5	75.25	75.25	77.38	+0.41	5.82
AIB Grofund Japan	5	198.2	200.9	211.5	-1.10	0.00

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (▼) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♦) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set at the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Thornton Unit Managers Ltd - Contd.						
UK Blue Chip	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Accum Units	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Waverley Unit Tst Mngmt Ltd (1000)F						
13 Charlotte Sq, Edinburgh						031-225 1551
Australasian Gold	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacific Basin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Whittingdale Unit Tst Mgmt Ltd (0830)F						
2 Honey Lane, London EC2V 8BT						071-600 0402
Woolwich Unit Trust Managers Ltd (1700)H						
2 White Oak Square, Swanley BR8 7AG						081-290 4000
Stockmarket Fd	5	77.10	77.20	82.12	+0.30	1.47

OTHER UK UNIT TRUSTS

	Bid Price	Offer Price	+ or -	Yield Gross
Baillie Gifford & Co Ltd				
Int'l Exet Jun 30	776.4	822.0	—	0.95
Baring Investment Mngmt Ltd				
155 Bishopsgate, London EC2M 3XY				
071-214 1050 (general enquiries)		071-214 1004 (dealing)		
Charitable Funds				
UK Growth & Income	56.63	57.76	—	3.1
Income Plus	49.18	50.27	—	6.0
CAF - Charity Money Management				
48 Pembury Rd, Tonbridge TN9 2JD				0732 770114

INSURANCES

[illegible]

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Scottish Mutual Assurance plc
190 St Vincent St, Glasgow 041-248 6321

	Bid Price	Offer Price	+ or -	Yield Gross
Flex End Jul 15	1595.0	1644.3	—	—
Pen Mngd Jun 30	1299.1	1329.0	—	—
Safety Fund	228.9	241.0	-0.10	—
Growth Fund	226.4	238.4	+0.30	—
Opportunity Fund	219.9	231.5	+0.40	—
Worldwide Venture Fnd	179.6	189.1	—	—
UK Equity Fund	236.4	248.9	+1.40	—
UK Smaller Cos. Fund	221.6	232.2	—	—
European Fund	344.0	362.2	+2.20	—
Far Eastern Fnd	348.4	366.8	-1.30	—
Japanese Fnd	151.0	159.9	-1.90	—
North American Fund	228.4	240.5	-1.80	—
International Fund	286.5	301.6	-0.90	—
Gilts & Fxd Int Fund	194.8	205.1	-0.20	—
Index-Linked Fund	173.8	183.0	+0.10	—
Property Fund	132.3	139.3	+0.10	—
Cash Fund	172.6	181.7	+0.10	—
Pens Safety Fnd	275.9	290.3	+0.10	—
Pens Growth Fnd	243.1	255.9	+0.80	—
Pens Opportunity Fnd	244.2	257.1	+0.78	—
Pens W'wide Venture Fnd	190.0	200.0	+0.20	—
Pens UK Equity Fnd	236.7	249.2	+1.80	—
Pens UK Smlr Co's Fnd	200.9	211.5	+1.20	—
Pens European Fnd	317.3	334.1	+2.20	—
Pens Far East Fnd	407.2	428.7	+0.40	—
Pens Japanese Fnd	150.0	157.9	-1.10	—
Pens Nth American Fnd	289.2	304.6	-1.75	—
Pens International Fnd	297.3	313.0	-0.92	—
Pens Gilts/Fxd Int Fnd	233.3	245.6	-0.80	—
Pens Index-linked Fnd	179.6	189.1	-0.10	—
Pens Property Fnd	147.3	155.1	-0.10	—
Pens Cash Fund	214.2	225.6	—	—
Pens Halifax Fnd	229.8	241.9	+0.10	—

Scottish Provident Group
6 St Andrew Sq, Edinburgh 031-556 2552

Scottish Provident Institution Funds

Life Funds

	Bid Price	Offer Price	+ or -	Yield Gross
With-Profits	112.3	118.3	+0.1	—
Managed	263.0	276.9	—	—

[illegible]

Sun Alliance Group – Contd.

Property Growth Life Funds

[illegible]

Sun Life Unit Assurance Ltd
St James Barton, Bristol BS99 7SL 0272 426911

[illegible]

OFFSHORE INSURANCES

[illegible]

Sun Alliance International Life

[illegible]

MANAGEMENT SERVICES

[illegible]

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

OTHER OFFSHORE FUNDS

CURRENCIES AND MONEY

MARKETS REPORT

Cabinet row hits lira

The fall-out from the cabinet squabble in Italy dominated foreign exchanges yesterday as the lira fell to a 1994 low, *writes Philip Gawith.*

The first serious schism within the two-month old government drove the Italian currency to a low of L1,003.60 against the D-Mark before recovering to finish slightly firmer in London at L1,002, from L993.8 on Friday.

Traders were concerned whether what appeared to be Mr Berlusconi's first serious policy error might not spill over into problems in management of the economy.

Elsewhere, the dollar had a quiet day. Dealers said the US currency was in e consolidation phase after its recent sharp fall. It was firmer against the yen, closing in London at Y98.3550 from Y97.9050, but lost ground against the D-Mark to finish et DM1.5428 from DM1.5558.

The D-Mark was stronger on the back of political uncertainty in both Italy and France, where the communications minister resigned over the weekend in connection with corruption charges.

Sterling had an uneventful day, with the market ignoring the June public sector borrowing figures which were below expectations.

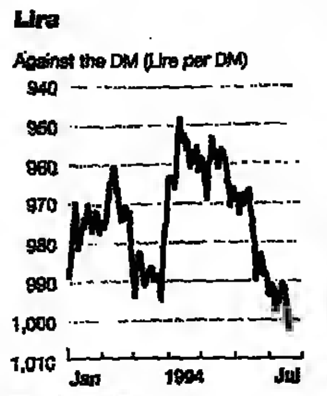
Consistent with the recent pattern, it was firmer against the dollar - closing at $1.5644 from $1.5586 on Friday - but weaker against the D-Mark, finishing at DM2.4135 from DM2.4248.

■ Analysts are currently playing down "apocalyptic" scenarios for the lira, hut none rule out the currency testing the historic low of L1,010 against the D-Mark, touched in December 1993. The next important development will be the parliamentary hearings into the constitutionality of the contested decree.

Mr Giorgio Radaelli, senior economist at Lehman Brothers in London, said the dispute between Mr Berlusconi and his coalition allies was the first open rift since they entered government. He said he doubted, however, whether there was a "great risk" in the next few weeks of a break-up of the government.

Lira

Against the DM (Lire per DM)



Source: FT Graphite

■ **Pound in New York**

Jul 18	—Latest—	– Prev. close –
£ spot	1.5620	1.5610
1 mth	1.5612	1.5603
3 mth	1.5604	1.5592
1 yr	1.5566	1.5560

But if this perception changes, it is likely to be accompanied by heavy selling of Italian assets by foreigners, which would depress the lira.

At the moment, investors seem to be standing back from selling the lira. Mr Radaelli said this might be explained by parliament going into recess on August 4.

The parliamentary recess is normally a good time for Italian financial markets. There is also hope that when parliament reconvenes, it will be to pass a budget which gets to grips with the Italian deficit problem.

Mr Radaelli said the market was reluctant to push the currency far beyond the important pyschological level of L1,000, for fear of unleashing "massive" intervention from the Bank of Italy.

He predicted, however, that so long as the currency did not fall too quickly, the Bank would stand back until it reached a level of L1,025-L1,030 before intervening. Mr Radaelli said there was currently little risk of imported inflation.

The bearish mood in Italian markets was evident in the Eurolira three-month interest rate future contracts. After losing 18 basis points on Friday, when the crisis first emerged, the September contract fell another 35 basis points to finish at 91.11. Volume was also heavy, with the September contract trading 12,418 lots.

Mr Neil MacKinnon, chief economist at Citibank in London noted that Italian financial markets were used to political uncertainty, adding that lira weakness "tends to be quite short-lived." He said the lira was also suffering from the current environment of general D-Mark strength.

■ The main influence on the dollar was the comments of Mr Fred Bergsten, the Washington economist with close ties to the Clinton administration. A long time dollar bear, Mr Bergsten told the Wall St Journal that "the yen is close to its peak, and its probably going to turn around."

He said it could go to Y90 against the dollar, but would not stay there long if it did.

Mr MacKinnon said the markets saw Mr Bergsten "rightly or wrongly, as the mouthpiece of the US Treasury." Mr Bergen said the markets would soon realise that Japan's trade surplus was going to shrink, and this would allow the dollar to stabilise at Y100-Y110.

The market is now looking ahead to the Humphrey Hawkins testimony of Mr Alan Greenspan, the Fed chairman, tomorrow. But Mr MacKinnon said any references to the dollar were likely to be too bland to be useful.

■ Overnight money traded between 4 and 6 per cent in the UK as the Bank of England provided £792m assistance to the money market after forecasting a shortage of £900m.

In Germany, call money rates firmed slightly to 4.90 per cent from 4.80/4.85 per cent. Analysts said they still anticipate a further decline in the repo rate this week.

Volumes were low and price movements small in the interest rate futures market. The December eurosterling contract closed at 93.99, while the euromark contract finished at 95.13.

POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

OTHER CURRENCIES

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

D-MARK FUTURES (IMM) DM 125,000 per DM

JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

STERLING FUTURES (IMM) £62,500 per £

EMS EUROPEAN CURRENCY UNIT RATES

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

WORLD INTEREST RATES

MONEY RATES

EURO CURRENCY INTEREST RATES

THREE MONTH EUROMARK FUTURES (LIFFE) DM1m points of 100%

THREE MONTH EUROLIRA INT. RATE FUTURES (LIFFE) L1000m points of 100%

THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

THREE MONTH EURODOLLAR (IMM) $1m points of 100%

US TREASURY BILL FUTURES (IMM) $1m per 100%

EUROMARK OPTIONS (LIFFE) DM1m points of 100%

EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

THREE MONTH EURODOLLAR (LIFFE) $1m points of 100%

UK INTEREST RATES

LONDON MONEY RATES

THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

BASE LENDING RATES

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jul 18 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Jul 18 / Frs.)

[illegible]

DENMARK (Jul 18 / Kr)

[illegible]

FINLAND (Jul 18 / Mka)

[illegible]

FRANCE (Jul 18 / Frs.)

[illegible]

GERMANY (Jul 18 / Dm.)

[illegible]

ITALY (Jul 18 / Lire)

[illegible]

NETHERLANDS (Jul 18 / Fls.)

[illegible]

NORWAY (Jul 18 / Kroner)

[illegible]

SPAIN (Jul 18 / Pts.)

[illegible]

SWEDEN (Jul 18 / Kronor)

[illegible]

SWITZERLAND (Jul 18 / Frs.)

[illegible]

PACIFIC

JAPAN (Jul 18 / Yen)

[illegible]

HONG KONG (Jul 18 / H.K.$)

[illegible]

MALAYSIA (Jul 18 / MYR)

[illegible]

SINGAPORE (Jul 18 / S$)

[illegible]

AUSTRALIA (Jul 18 / Aust.$)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Jul 18 / Can $)

4 pm close

[illegible]

MONTREAL (Jul 18 / Can $)

4 pm close

[illegible]

AFRICA

SOUTH AFRICA (Jul 18 / Rand)

[illegible]

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal (trade). # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ TOKYO - MOST ACTIVE STOCKS: Monday, July 18, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Mitsubishi Hvy	11.7m	808	-8	Sumitom Chemical	2.6m	526	+8
Mitsubishi Oil	10.4m	1200	+10	Teijin	2.3m	557	-17
NEC	5.3m	1220	-20	Nippon Steel	2.2m	344	+2
Mitsui Sugar	3.6m	617	+31	Kawasaki Steel	2.1m	409	+5
Toray Ind	3.4m	772	+5	Toshiba	2.1m	777	-5

INDICES

[illegible]

	Jul 18	Jul 15	Jul 14	1994 High		1994 Low	
Indonesia Jakarta Comp.(10/8/82)	462.48	461.83	460.29	612.60	5/1	449.72	12/7
Ireland ISEQ Overall(4/1/88)	1796.03	1793.54	1778.49	2082.18	20/1	1694.14	1/7
Italy Banca Comm Ital (1972)	699.69	711.12	701.21	817.17	10/5	598.85	10/1
MIB General (4/1/94)	1113.0	1149.0	1132.0	1319.00	10/5	944.00	10/1
Japan Nikkei 225 (16/5/49)	20717.64	20770.15	20718.04	21552.81	13/6	17369.74	4/1
Nikkei 300 (1/10/82)	302.29	303.03	302.47	311.71	13/6	268.22	4/1
Topix (4/1/68)	1685.01	1688.47	1684.52	1712.73	13/6	1445.97	4/1
2nd Section (4/1/68)	2508.91	2512.93	2505.62	2542.65	6/7	1878.33	4/1
Malaysia KLSE Comp.(4/4/86)	1005.05	1012.11	1010.80	1314.46	5/1	928.33	4/4

Eurotrack 100(26/10/90)	1345.11	1349.02	1337.33	1540.19	31/1	1303.48	21/6
Euro Top-100 (26/6/90)	1187.28	1191.47	1179.37	1311.01	2/2	1148.06	21/6
JCapalDgns (31/12/88)	(u)	311.04	304.06	395.19	5/1	290.28	21/3
Barings Emerg.(7/1/92)	159.49	159.89	156.53	182.72	14/2	141.65	21/4

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Jul	2016.0	2038.0	+59.0	2039.0	1999.0	20,246	33,384
Aug	2001.0	2046.5	+59.0	2035.8	2008.0	-	535
Sep	2008.5	2054.5	+59.5	2051.0	2018.0	1,479	25,081

Open interest figures for previous day.

** Sat July 16: Taiwan Weighted Price (c) ; Korea Comp Ex 948.73. Base values of all indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 256.7; JSE 20 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours Index: Jul 18 - 2116.86 +13.42

US INDICES

Dow Jones	Jul 15	Jul 14	Jul 13	1994 High	1994 Low	Since compilation High	Since compilation Low
Industrials	3753.81	3738.25	3704.28	3978.36 (31/1)	3593.35 (4/4)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	97.32	97.05	96.75	105.61 (21/1)	96.43 (13/5)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	1601.98	1597.15	1582.98	1862.29 (2/2)	1546.02 (20/4)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	183.23	182.51	178.87	227.56 (3/1)	176.71 (24/6)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3769.35 (3753.53) Low 3712.37 (3697.49) (Theoretical♦)
Day's high 3733.81 (3748.86) Low 3731.15 (3708.31) (Actual♦)

Standard and Poors	Jul 15	Jul 14	Jul 13	1994 High	1994 Low	Since compilation High	Since compilation Low
Composite ‡	454.15	453.41	446.73	482.00 (2/2)	438.92 (4/4)	482.00 (2/2/94)	4.40 (1/6/32)
Industrials♥	525.87	526.01	523.23	560.59 (2/2)	510.05 (21/4)	560.59 (2/2/94)	3.62 (21/6/32)
Financial	45.09	45.06	44.36	48.84 (14/6)	41.39 (4/4)	48.40 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	251.06	250.56	247.85	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	431.55	430.84	427.75	487.89 (2/2)	422.57 (28/6)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	721.36	721.56	719.35	803.93 (18/3)	693.79 (24/6)	803.93 (18/3/94)	54.87 (31/10/72)

■ RATIOS

	Jul 15	Jul 8	Jul 1	Year ago
Dow Jones Ind. Div. Yield	2.71	2.74	2.79	2.95
	Jul 13	Jul 6	Jun 29	Year ago
S & P Ind. Div. yield	2.47	2.49	2.49	2.58
S & P Ind. P/E ratio	22.93	22.72	23.10	24.89

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Sep	454.50	454.90	+0.10	455.20	454.20	48,819	203,536
Dec	457.80	457.80	+0.25	457.80	457.80	792	12,084
Mar	461.30	461.30	+0.50	461.30	461.30	44	2,303

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Merck	3,363,100	29⅝	+⅛
Wal-Mart	3,043,000	25⅝	+⅛
EMC	2,989,000	15¼	-⅜
Gen Electric	2,825,800	47⅞	+¾
Motorola	2,595,700	48⅝	-1⅛
Texas Inst	2,546,800	80⅛	-6⅛
IBM	2,478,100	57	-1¼
Ford Motor	2,422,800	31⅛	+⅛
Coca Cola	2,408,400	42¼	+⅛
Micron	2,375,300	36⅝	-1½

■ TRADING ACTIVITY

● Volume (million)

	Jul 15	Jul 14	Jul 13
New York SE	274.849	319.945	265.629
Amex	14.171	16.365	14.168
NASDAQ	302.745	340.401	313.156
NYSE			
Issues Traded	2,825	2,826	2,836
Rises	1,196	1,655	1,164
Falls	871	551	909
Unchanged	758	620	763
New Highs	43	48	42
New Lows	39	49	51

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

4 pm close July 18

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
17 7/8	13 3/8	AAR	0.48	3.5	46	2193	14	13 7/8	13 7/8	
18 7/8	13	A L Labs A	0.18	1.3	31	129	13 1/2	13 1/2	13 1/2	-1/8
73	57 5/8	AMP	1.68	2.4	25	2164	71 3/4	71	71 1/4	-1/2
72 3/4	52 1/8	AMR			31	1718	62 1/8	61 1/4	61 3/4	-1/8
5	3 3/8	ARX			12	77	3 7/8	3 5/8	3 5/8	-1/8
56 1/8	38 5/8	ASA	2.00	4.5	29	513	45 1/4	44 7/8	44 7/8	-1/8
31 1/8	25 3/8	AbbtL x	0.76	2.8	18	6199	28	27 1/2	27 1/2	-1/4
13 3/4	11 3/8	Abitibi Pr	0.50	4.8	9	69	12 3/4	12 1/2	12 5/8	-1/8
23 5/8	17 3/4	ABM Ind x	0.52	2.7		60	19 5/8	19 3/8	19 3/8	+1/8
13 3/4	11 1/8	Acptance Ins			24	63	13 1/2	13 1/4	13 3/8	
31	22 3/4	ACE Ltd	0.44	1.8	4	463	24 1/4	22 3/4	24 1/4	+5/8
12 1/4	10 1/8	ACM Gvt In	1.09	10.0		350	11	10 7/8	11	+1/8
10 1/8	7 7/8	ACM OpOpp	0.80	9.6		17	8 1/4	8 1/8	8 1/4	
10 5/8	8	ACM Gvt Sp	0.08	11.8		138	8 1/4	8 1/2	8 1/8	
12	8 1/8	ACM Gvt Se	1.09	11.5		162	9 5/8	9 1/2	9 1/2	
11 3/4	8 3/4	ACM Man	1.08	12.0		377	9 1/8	9	9	-1/8
9 1/4	8	ACM Managd	0.72	8.9		66	8 1/4	8 1/8	8 1/8	-1/8
15 1/2	9 3/4	AcmeCly	0.44	3.8	14	43	11 3/4	11 1/2	11 1/2	-1/8
9 1/4	6 1/2	Acme Elect				51	8	7 7/8	8	-1/8
28 3/4	23	Acordia	0.60	2.2	13	z100	26 3/4	25 3/4	26 3/4	
9 5/8	5 3/4	Actava	0.36	4.0	3	633	9 1/8	8 5/8	9	+1/4
15 5/8	11 1/4	Acuson			97	195	12 7/8	12 5/8	12 5/8	-1/8
18 3/8	16 1/2	Adams Expr	0.46	2.8	0	168	17 1/4	17 1/8	17 1/8	
64	48 1/2	Ad Micro	3.00	5.6		82	54 1/4	53 1/2	53 1/2	-1/2
31 3/4	16 3/4	AdvMic	3.00	11.8	11	3885	25 7/8	25 1/8	25 1/2	+1/4
6 7/8	5	Advest Grp	0.19	3.1	8	20	5 1/8	5 1/8	5 1/8	
20	15	Advo Inc	0.10	0.8	116	28	17 3/4	17 1/2	17 1/2	
57 1/4	46 3/8	Aegon ADR	2.95	5.4	12	13	55	54 5/8	54 7/8	-1/4
65 1/4	49 3/4	AetnaL	2.76	4.8	8	516	57 5/8	56 7/8	57	-1/2

Continued on next page

4 pm close July 18

NYSE COMPOSITE PRICES

Continued from previous page

1994 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close	Chng
[illegible]										
25½	20	Yankee Egy	1.22	5.2	13	38	23⅝	23½	23½	
40	33⅞	York Int	0.18	0.4	19	1142	38½	37⅞	38¼	-½
4⅛	1	Zapata	0.14	3.4		1367	04⅛	4	4⅛	
13½	7	ZenithE			3	298	9⅛	8⅛	9¼	
25½	20⅝	Zenith Nat	1.00	4.4	0	2	22⅞	22⅞	22⅞	+⅛
7⅞	6⅝	Zeolar Inc x	0.82	11.3		72	7⅜	7¼	7¼	+⅛
16⅛	11⅜	Zero	0.40	2.2	15	53	12⅛	12¼	12⅞	+⅛
23¼	18⅝	Zurn Ind	0.88	4.4	17	187	20⅛	19½	20	+⅝
13⅞	12⅛	Zweig Fund a	1.08	8.7		247	12⅝	12¼	12⅛	
10¾	9	Zweig Tot1 x	0.84	9.1		723	9¼	65	8¼	+⅛

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 7 1994. [illegible]

NASDAQ NATIONAL MARKET

4 pm close July 18

[illegible]

AMEX COMPOSITE PRICES

4 pm close July 18

[illegible]

AMERICA

US stocks in muted rise by midsession

Wall Street

US share prices showed little change yesterday morning in a quiet session highlighted by a fresh batch of corporate results, *writes Frank McGurty in New York.*

By 1 pm, the Dow Jones Industrial Average was 2.27 lower at 3,751.54, while the more broadly based Standard & Poor's 500 was 0.39 better at 454.56. In the secondary markets, the American SE composite was 0.59 ahead at 432.10, but the Nasdaq composite dipped 0.07 to 721.29.

The opening was weak, completing a pattern which is typical of Monday mornings which follow "double witching" rallies. Yesterday stocks tumbled about 15 points in the first minutes of activity, wiping out most of the expiration-related gains struck in the final minutes of trading last week.

Apart from the technical considerations, the restrained tone reflected anticipation of tomorrow's semi-annual Humphery-Hawkins testimony by Mr Alan Greenspan. The Fed chief will brief a Senate committee on the state of the economy, and investors were hoping for hints on the timing of the next move to higher interest rates.

As the morning progressed, market indices managed to climb off their session lows. An absence of fresh economic news and benign trends on the bond and currency markets provided an uncluttered vantage point from which to scrutinise the second-quarter performances of several market bellwethers.

For better or worse, the reaction to the results was generally muted. Chase Manhattan posted net income of $307m in the second three months of 1994, well ahead of its 1993 result of $233m. But the stock receded $⅛ to $33⅞.

Nationsbank also beat the forecasts of analysts, publishing a 42 per cent improvement in earnings, but its share price nudged only $⅛ ahead to $55. KeyCorp slipped $⅛ to $31⅛ though its results matched expectations.

In pharmaceuticals, Upjohn issued a strong earnings reports but the reaction by investors was tepid. The stock added $⅞ to $30⅞.

US West led the NYSE's most active list, dropping $1½ to $40⅞ in volume of 1.2m shares. The regional telephone group's earnings showed no change on the previous year, but the downturn in its share price was more a reflection of a decision to purchase two Atlanta cable-television operations and a downgrading by Goldman Sachs.

At least two gambling-related issues were big winners. International Game Technology jumped $1⅛ to $22⅞ and Circus Circus added $⅞ to $28.

On the Nasdaq, Microsoft was marked up $1⅛ to $50⅞ after settling a four-year federal antitrust lawsuit. Analysts played down the impact of the agreement on the company's domination of the computer software industry.

Canada

Toronto edged lower in quiet trade and by noon the TSE 300 composite index was 1.71 off at 4,191.70 in volume of 15.3m shares. Gains in industrial products failed to offset losses in gold and oil and gas.

American Barrick was even at C$31⅛ after reporting second quarter earnings of US$0.21. The company also said gold output soared by 24 per cent in the first half of this year.

Lac Minerals rose C$⅛ to C$13 after its board recommended that shareholders reject a hostile takeover bid from Royal Oak Mines.

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1994	Start of 1994	Start of 1994
Austria	+0.07	-2.23	+13.50	-8.75	-3.52	+1.64
Belgium	+0.66	-2.35	+2.42	-7.05	-0.60	+4.72
Denmark	+2.71	+1.35	+17.02	-1.76	+3.63	+9.17
Finland	+1.61	+4.97	+41.77	+12.21	+19.60	+25.99
France	+2.36	+1.37	+3.53	-12.16	-7.79	-2.86
Germany	+1.65	+1.79	+13.16	-8.48	-3.04	+2.15
Ireland	+4.39	+3.55	+12.89	-2.00	+1.53	+6.95
Italy	+4.52	+3.64	+24.29	+16.40	+22.32	+28.85
Netherlands	+0.91	-1.45	+12.01	-7.51	-2.28	+2.94
Norway	+5.42	+7.09	+17.95	+2.43	+7.46	+13.20
Spain	+3.85	-1.50	+12.57	-8.34	-3.27	+1.91
Sweden	+4.86	-0.04	+20.28	+0.17	+2.65	+8.14
Switzerland	-1.88	-4.72	+6.30	-13.43	-6.99	-2.00
UK	+3.64	+1.64	+8.66	-9.62	-9.63	-4.79
EUROPE	+2.48	+0.66	+10.15	-8.06	-4.87	+0.22
Australia	+5.43	+0.69	+14.84	-4.18	-1.55	+3.71
Hong Kong	+8.08	+0.06	+31.59	-24.13	-27.96	-24.10
Japan	+0.46	-2.46	+2.15	+14.56	+23.97	+30.59
Malaysia	+3.01	-2.95	+48.86	-22.63	-23.74	-19.66
New Zealand	+2.82	-4.05	+18.42	-7.35	-5.85	-0.81
Singapore	+4.61	-0.69	+31.03	-12.42	-11.56	-8.83
Canada	+2.01	+0.23	+8.65	-2.04	-10.58	-5.80
USA	+1.19	-0.81	+0.77	-2.37	-7.33	-2.37
Mexico	-1.75	-1.84	+35.52	-11.37	-23.15	-19.04
South Africa	+2.88	-3.70	+38.11	+13.86	+3.80	+9.48
WORLD INDEX	+1.51	-0.97	+5.11	-0.29	+0.61	+5.99

† Based on July 15th 1994.

Equity markets enjoyed a markedly more positive time last week, but in the current unsettled climate it must remain uncertain as to whether or not this marks a turning point. Taken on a year to date perspective the figures do not read so well – in dollar terms, Hong Kong, for instance, one of last week's star performers, remains off nearly 25 per cent, although, on the other hand, some good rises are still to be seen in Finland and Italy, up by similar amounts, while Japan leads the way, up 31 per cent so far. The European financial community will be waiting expectantly for the Bundesbank meeting on Thursday, the last time it meets before the four-week summer recess, although some analysts do not forecast a further rate easing, just yet.

EUROPE

Milan tumbles 3% as political crisis deepens

It was a day of strong contrasts among the equity markets on the Continent, with Italy and Paris heading in opposite directions.

MILAN was unnerved by the deepening political morass, and the Comit index, under additional pressure from a number of companies trading ex-dividend, fell 21.43, or 3 per cent, to 689.69. The market was marked sharply lower early in the session, in line with the bond and currency markets, before steadying later in the day.

Mr John Stewart at InterEuropa Sim in Milan commented that growing tensions between the coalition partners over plans to curtail magistrates' powers had raised doubts about the future of the government. "Developments over the weekend have made it hard to see how they are going to bolt the coalition back together again," he said. More immediately, it begged questions about whether budget details, due on Thursday, would be ready on time.

The political uncertainty also took a toll on foreign investor confidence. Daiwa Europe, which had maintained an overweight position, noted in its latest strategy review that the Comit index had risen by 131 per cent in the 20 months to May, before the subsequent retrenchment "restored a very attractive level of potential appreciation for the end of this year, though we recognise that political and economic setbacks could cause corrections along the way".

The weekend's developments left Mr Roger Monson, chief equity strategist, reviewing the banking and securities house's stance on Milan yesterday, and while he said that the market was one to be avoided in the short term, he maintained his positive view in the mid to long term.

Selling was broadly based, with Montedison down L27 to L1,435. Stet, trading ex-dividend, lost L130 to L5,350 and Generali fell L290 to L41,200, ex-dividend.

PARIS enjoyed a strong performance on the first day of trading following the long weekend break. Supported by bonds, the CAC-40 index added 50.54, or 2.6 per cent, to break through the 2,000 level for the first time since mid-June, at 2,025.13.

The equity market has long been in the doldrums and has fallen steeply since the start of the year. Analysts had been expecting a return to higher levels for some time, given the strength of the underlying economy.

Kleinwort Benson, in returning its recommendation to neutral from underweight, said at the end of last week that the strongest case for the market at present was one of momentum. "Earnings growth is strong, with disappointments unlikely. Investors are much less overweight in French equities then they were and in many cases underweight... most importantly, sentiment is currently weak and it is difficult to see what would make it deteriorate any further. France has underperformed for too long."

FRANKFURT pushed forward in official hours and then accelerated some more in the post-bourse, the Dax index closing the latter with an advance of 13.42 to 2,116.86.

Merck Finck said yesterday that with the US currency remaining the key to movements in the equity market, it did not expect a rally until later in the summer, and from lower levels than at present. Consequently it said that it was maintaining a defensive strategy, was remaining cautious on cyclicals, with the exception of chemicals, and had reduced the utilities sector from overweight to neutral. By contrast it was raising its weighting of construction stocks from neutral to overweight, based on an improvement in the sector.

AMSTERDAM was encouraged by the gains of last week and strength seen elsewhere on the Continent and the AEX index firmed 1.52 to 393.61.

The publishing sector was one of the main beneficiaries of the day, with the Fl 3.00 gain in Elsevier, one of the index's heavyweights, to Fl 164.30 helping to push overall sentiment higher. However, the publishing group's stock remains down more than 10 per cent from its level seen at the start of the year.

ZURICH remained under pressure from Roche, and the SMI index fell 20.2 through support at the 2,500 level to finish at 2,494.7.

Roche certificates gave up another SFr170 to SFr5,260 in further response to last week's disappointing first-half sales figures. Other chemicals were also easier. Sandoz registered shares lost SFr10 to SFr647, although its own first-half figures were in line with most expectations.

Insurers bucked the weaker trend on a positive view for the sector's outlook. Swiss Re certificates rose SFr13 to SFr555 and Winterthur put on SFr14 to SFr710 after the company confirmed a report that it expected double-figure profits growth this year. Banks were little changed as investors positioned themselves for half-year reports next month.

MADRID turned firmer as bonds recovered, although late profit-taking took prices off best levels. The general index rose 2.16 to 304.95.

Repsol put on Pta70 at Pta4,020, and Sevillana added PTa19 at Pta683 as 17.9m shares were placed at Pta680 each in what was described as an internal adjustment.

STOCKHOLM moved higher although turnover was reported as being below average. The Affärsvärlden general index rose 13.7 to 1,430.9.

A number of factors contributed to the recovery of share prices, dealers said; a further decline in domestic interest rates, gains on neighbouring markets and optimism ahead of first-half earnings figures from Swedish companies. Turnover came to SKr1.36bn.

WARSAW rebounded 6.3 per cent, overcoming Thursday's 5.9 per cent tumble and returning to the winning ways of the previous seven sessions. The Wig index rose 658.2 to 11,063.3, although the rise prompted warnings that the high pace of recent gains, if sustained for long, could provoke another round of profit-taking. Turnover rose 35 per cent to 1,400bn zlotys. Universal rose 9.5 per cent to 218,000 zlotys.

Written and edited by John Pitt and Michael Morgan

FT-SE Actuaries Share Indices

Jul 18 — THE EUROPEAN SERIES

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1337.75	1338.62	1339.63	1341.06	1341.76	1342.91	1345.57	1348.11
FT-SE Eurotrack 200	1385.73	1383.90	1384.17	1386.61	1387.80	1390.01	1392.85	1391.67

	Jul 15	Jul 14	Jul 13	Jul 12	Jul 11
FT-SE Eurotrack 100	1343.02	1327.33	1325.94	1317.85	1326.78
FT-SE Eurotrack 200	1392.05	1374.13	1362.13	1350.44	1365.90

Base 1000 (26/10/90) High/day: 100 - 1347.26; 200 - 1394.08 Low/day: 100 - 1337.58 200 - 1382.30

ASIA PACIFIC

Nikkei eases as Taipei rises 2% to four-year high

Tokyo

Technical trading limited share price fluctuations to a narrow range, and the Nikkei index closed marginally lower on light index-linked trading, *writes Emiko Terazono in Tokyo.*

Index-linked selling by institutional investors and profit-taking by corporations countered buying by investment trusts, and the Nikkei 225 ended 53.51 off at 20,717.64. Without major moves on the currency and money markets, many investors remained inactive due to the lack of news.

The Nikkei peaked at 20,816.46 in the morning session but fell to a day's low of 20,688.34 in the last half-hour before the close. Foreign investors were also seen placing small-lot sell orders.

Volume was 213m shares, against 238m. Many investors have been bracing themselves for a further fall in the dollar this week, and are likely to stay on the sidelines as Mr Alan Greenspan, the chairman of the Federal Reserve, gives congressional testimony this week and the German Bundesbank policy-making council holds its scheduled meeting on Thursday.

The Topix index of all first section stocks dipped 3.46 to 1,665.01, while the Nikkei 300 lost 0.74 at 302.29. Falls led rises by 584 to 359, with 229 issues unchanged. In London the ISE/Nikkei 50 index edged up 1.65 to 1,348.46.

Fanuc, the leading manufacturer of numerical control equipment, dropped Y300 to Y4,190. The issue failed to trade during the morning due to a lack of buyers following reports that the Japanese subsidiary of International Business Machines, of the US, was moving into the market.

Profit-taking depressed high-technology shares. NEC dipped Y20 to Y1,220 and Toshiba Y5 to Y777.

Textile makers, which had gained ground recently as beneficiaries of the strong yen, met profit-taking by domestic institutions. Teijin receded Y17 to Y557 and Unitika Y15 to Y375, but Toray Industries managed to recoup its decline, closing a net Y5 up at Y772.

Tokyo Steel, the electric furnace steel maker, fell Y40 to Y2,470 after its announcement that it was closing down a plant in central Japan due to the water shortage caused by the recent drought in central and eastern Japan.

Other steel companies were higher in spite of reports of similar moves. Nippon Steel firmed Y2 to Y344 and Kawasaki Steel Y5 to Y409.

In Osaka, the OSE average slipped 32.13 to 23,195.42 in volume of 17.4m shares.

Roundup

The Pacific Rim saw mixed trading, with the reappearance of foreign demand in some markets.

TAIPEI finished at its highest level since June 1990 as intensified buying in the heavily weighted, and recently neglected, financial sector boosted overall sentiment. The weighted index advanced 125.96, or 2 per cent, to 6,533.46 in turnover that rose to a high for the year of T$131.04bn amid the reappearance of strong foreign demand.

The banking sector gained 3 per cent as China Trust moved ahead T$5 to T$82.5 on sound profits expectations.

HONG KONG finished higher on foreign fund buying of selected blue chips but profit-taking left the Hang Seng index below the 9,200 benchmark. It was finally up 75.81 at 9,183.53 after a day's high of 9,228.80. HSBC showed strength, adding HK$2.25 at HK$89.75.

SYDNEY saw a continuation of last week's gains and the All Ordinaries index closed 14.3 higher at a month's peak of 2,072.2. Volume in News Corp was a heavy 5.1m shares. The stock rose 10 cents, or 1.2 per cent, to a month's high of A$8.80. Elsewhere among blue chips, BHP gained 4 cents at A$18.64 and CRA traded in a 20-cent range before closing steady at A$19.08.

MANILA was supported by lower domestic interest rates and expectations of strong second-quarter corporate earnings. The composite index put on 45.91 at 2,650.81.

PLDT led blue chips as the telephone stock jumped 3.4 per cent to 1,510 pesos. San Miguel "B" climbed 4.1 per cent to 126 pesos. Benpres Corp led second-line issues as it leapt 8.1 per cent to 9.30 pesos.

WELLINGTON advanced 1.1 per cent in improved turnover of NZ$41.4m, with forest sector stocks again singled out as buys. The NZSE-40 capital index gained 21.95 at 2,034.46.

Brierley Investments, which on Friday said it expected to report a record profit for the 1993/94 year, firmed 1 cent to NZ$1.20 in higher than usual volume of 6.27m shares.

SHANGHAI's A share index lost 3.8 per cent on news that the exchange would enforce regulations banning short selling in state bonds and repurchase agreements starting on Monday next week.

The index retreated 16.12 to 400.38 in thin volume of 302.2m as investors fled the long-depressed A market, which has lost 75.60 per cent from its peak of 1,640.71 in February last year.

The bond news also hit Shenzhen's A index, which fell 4.72, or 4.4 per cent, to 101.82.

SEOUL extended early losses in very thin trade, sending the market to a lower close for the third consecutive session. Many institutional investors remained wary after the securities watchdog said it would monitor stock price manipulation, leaving trading volume sharply reduced. The composite index finished 4.93 down at 944.80.

SINGAPORE closed flat, with the broader market softening on profit-taking in Malaysian shares traded over the counter.

The Straits Times Industrial index put on 0.83 at 2,199.15, with part of the dampening influence attributed to a Merrill Lynch report which said it did not expect a sustained rally in Malaysia on an announcement of a general election.

KUALA LUMPUR was broadly lower in sluggish trading as investors took advantage of last week's gains to sell shares. The composite index receded 7.06 to 1,005.05 in volume that slid to 90m shares from Friday's 221m.

Gold shares off day's best

Gold shares in Johannesburg closed off the day's best in generally subdued trading. The overall index improved 11 to 5,587, industrials notched up 16 to 6,403 and the golds index eased 6 to 2,154.

De Beers dipped 10 cents to R108.90 – the group announced yesterday a diamond exploration joint venture in Canada. Anglos moved up R1 to R233.

● The governor of South Africa's central bank cautioned at the weekend against a premature abolition of the country's foreign exchange controls, saying the cost could be too high, at least in the short term, Reuter reports from Harare.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	FRIDAY JULY 15 1994								THURSDAY JULY 14 1994					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (69)	173.06	2.8	164.63	107.11	139.99	156.67	2.8	3.52	168.34	159.58	104.58	135.28	152.47	189.15	138.28	139.66
Austria (17)	188.02	-0.6	176.85	116.36	152.08	151.96	0.4	1.05	189.23	179.38	117.65	152.66	151.36	195.41	149.23	149.65
Belgium (37)	170.32	-0.1	162.01	105.41	137.76	134.79	0.7	4.10	179.48	161.62	105.91	137.00	133.81	176.87	143.82	148.90
Canada (106)	127.32	0.2	121.68	79.16	103.46	127.53	-0.2	2.66	127.61	120.97	79.28	102.54	127.73	145.31	120.54	126.48
Denmark (33)	269.87	0.0	256.71	167.01	216.26	224.44	0.7	1.32	269.88	255.84	167.66	216.67	222.88	275.79	207.58	209.84
Finland (24)	155.22	-0.4	147.65	96.06	125.55	168.01	0.2	0.64	155.87	147.76	96.83	125.25	167.68	158.95	95.42	97.40
France (97)	170.93	-0.8	162.59	105.78	138.25	143.16	0.0	3.13	172.27	163.30	107.02	138.43	143.15	185.37	149.60	149.80
Germany (58)	143.26	1.0	136.27	88.66	115.87	115.87	1.7	1.78	141.81	134.43	88.10	113.96	113.96	147.07	112.69	114.20
Hong Kong (56)	371.39	3.4	353.28	229.84	300.40	368.32	3.3	3.22	359.29	340.60	223.21	288.73	356.41	506.56	271.42	281.10
Ireland (14)	198.09	1.0	188.44	122.60	160.23	181.49	1.4	3.36	196.06	185.86	121.82	157.57	178.90	209.33	157.90	159.39
Italy (61)	88.36	0.7	84.07	54.70	71.49	102.07	1.7	1.48	87.78	83.21	54.53	70.54	100.35	97.78	57.88	66.90
Japan (469)	169.94	0.6	161.66	105.17	137.46	105.17	0.2	0.73	168.97	160.17	104.97	135.78	104.97	170.10	124.54	150.54
Malaysia (98)	475.24	0.4	452.06	294.11	384.40	474.87	0.6	1.72	473.51	448.88	294.17	380.52	472.28	621.63	322.80	322.80
Mexico (18)	1933.00	0.9	1838.72	1196.27	1563.49	7196.75	0.9	1.86	1915.87	1816.17	1190.21	1539.57	7120.07	2647.09	1515.57	1563.52
Netherland (27)	204.97	0.2	194.96	126.85	165.80	183.24	0.8	3.48	204.48	193.84	127.03	164.32	181.78	207.43	164.59	164.69
New Zealand (14)	67.36	2.3	64.07	41.69	54.48	59.72	2.1	4.00	65.86	62.43	40.91	52.92	58.49	77.59	51.62	52.21
Norway (23)	203.36	0.0	193.44	125.85	164.49	187.84	0.8	1.76	203.40	192.82	126.36	163.45	186.78	208.42	158.74	159.63
Singapore (44)	342.41	0.9	325.72	211.91	278.96	238.66	0.9	1.77	339.22	321.57	210.74	272.90	236.56	378.92	244.27	244.27
South Africa (59)	282.41	2.2	276.15	180.97	236.52	285.21	1.0	2.22	286.04	271.16	177.70	229.86	282.28	292.41	175.93	205.39
Spain (43)	142.01	-0.8	135.08	87.89	114.86	138.30	0.0	4.16	143.16	135.71	88.93	115.04	138.25	156.79	116.33	119.95
Sweden (36)	212.35	0.1	201.99	131.42	171.76	242.71	0.7	1.65	212.16	201.14	131.81	170.51	240.95	231.35	168.75	170.11
Switzerland (47)	156.93	-1.0	149.27	97.12	126.93	127.64	-0.4	1.90	158.54	150.29	98.49	127.40	129.17	178.56	124.48	127.72
United Kingdom (204)	195.23	0.4	185.70	120.82	157.91	185.79	0.8	4.08	194.36	184.25	120.75	156.18	184.25	214.98	170.49	171.52
USA (518)	186.40	0.2	176.36	114.74	149.96	185.40	0.2	2.89	185.08	175.48	114.99	148.74	185.08	198.04	178.95	183.99
EUROPE (720)	169.95	0.1	161.66	105.16	137.47	151.75	0.7	3.06	169.72	160.89	105.44	136.38	150.65	178.58	142.82	142.96
Nordic (116)	210.90	0.0	200.61	130.52	170.58	205.12	0.6	1.45	210.86	199.97	131.05	169.52	203.89	220.60	160.69	181.73
Pacific Basin (750)	176.86	0.9	168.23	108.45	143.05	114.76	0.5	1.04	173.41	166.28	108.97	140.96	114.20	176.86	134.79	153.82
Euro-Pacific (1470)	173.62	0.5	165.34	107.57	140.59	129.76	0.6	1.67	172.89	163.89	107.40	138.93	129.01	173.62	143.88	149.21
North America (625)	181.84	0.2	172.97	112.53	147.08	181.43	0.1	2.88	181.52	172.08	112.77	145.87	181.15	192.73	175.67	180.42
Europe Ex. UK (516)	152.60	0.0	145.16	94.44	123.43	131.56	0.7	2.47	152.68	144.79	94.84	122.66	130.84	157.47	124.77	124.77
Pacific Ex. Japan (281)	247.19	2.3	235.14	152.98	199.94	221.51	2.3	2.88	241.63	229.08	150.11	194.17	218.52	296.21	184.93	186.45
World Ex. US (1653)	174.69	0.6	166.17	108.11	141.29	133.03	0.6	1.90	173.79	164.66	107.91	139.58	132.26	174.89	145.58	149.88
World Ex. UK (1968)	175.46	0.4	166.91	108.58	141.92	145.76	0.4	2.05	174.71	165.62	108.54	140.40	145.19	175.56	155.96	159.20
World Ex. So. Af. (2113)	176.50	0.4	167.89	109.23	142.76	149.40	0.4	2.24	175.78	166.64	109.20	141.26	147.76	178.56	158.54	160.11
World Ex. Japan (1703)	183.60	0.4	174.55	113.56	148.42	174.66	0.6	2.93	182.63	173.32	113.58	146.92	173.89	195.20	166.51	167.44
The World Index (2172)	177.22	0.4	168.58	109.68	143.34	149.42	0.4	2.24	176.46	167.28	109.62	141.80	148.77	178.97	156.85	160.31

Constituent change with effect 19/7/94: Deletion: Bridge Oil (Australia). Constituent change 18/7/94: Name change: B.S.N. to Danone (France). French market closed 13/7/94. Latest prices were unavailable for this edition.

JAPAN

Tuesday July 19 1994

In the throes of transformation

Social upheaval is rare in Japan. When it takes place, it does so with dramatic suddenness, as in today's radical changes. **William Dawkins** reports

Tokyo Disneyland visitors: the present phase resembles Japan's crash industrialisation a century ago   Picture: Glyn Genin

Japan does not evolve gradually like other leading industrialised countries. Instead, it goes through decades of stability, punctuated hy upheavals such as the one happening now.

Evidence has piled up over the past year that Japan is starting to redefine every aspect of its society. Old maxims, such as stability, consensus, the subordination of the collective will to export-led economic growtb, have all been thrown into question.

A new blueprint is beginning to emerge. It is only partly drawn and will take years to complete. But the first blurred sketch shows an unpredictable Japan, in which open debate rivals consensus, individual initiative has begun to challenge collective will, and the race for growth is giving way to the challenge of adjusting to a slowly expanding mature ecooomy.

Optimists liken the present phase to the start of the Meiji Restoration, Japan'a high speed transformation at the end of the 19th century from a medieval to an industrialised society; or to the creation of Japan's economic miracle in the decades after the second world war.

Realists point out, bowever, that for the moment there is no restoration. Japan wavers tantalisingly between the partial destructioo of the old order and the construction of a new one. For every few steps forward, it takes a step back.

"Change has been slower and more disorganised than many foreign observers think, but it is real. It is also much stronger than many foreign observers think," says Mr Kiyoaki Kikuchi, a former ambassador to the United Nations.

Nowhere has the transformation been more visible than in politics. Formerly stable Japan has produced four prime ministers over the past year. The monolithic dominance of the Liberal Democratic Party has given way to a shifting web of alliances between 12 parties, in which policies are announced one day to be revoked the next.

The breakdown of the old political order began a year ago today, when the electorate voted out the LDP after 38 unbroken years in power.

An LDP government returned to office three weeks ago, hut this time under a prime minister from the Socialist party, Mr Tomiichi Murayama, tha LDP's traditional enemy since 1955. It is a partial step back to the old system, but also an illustration of how severely the old structure has been fractured.

While a humiliated LDP spent 11 months in opposition, two unstable coalition governmeots led hy a younger generation of reform-minded politicians managed to achieve a long-delayed redesign of the political system and set curbs on political funding.

The new rules, to be completed with the redrawing of electoral houndaries this autumn, will make Japanese politicians compete for seats more on the quality of their policy ideas, and less on their newly curtailed ability to hand out favours.

The defeat and subsequent weakening of the LDP, which has seen its numbers dwindle through a trickle of defections over the past year, was a terminal hlow to the ao-called iron triangle of husiness, politics and the bureaucracy. "Business oo longer knows where to go for favours and the bureaucrats feel there is oo power ceotre," says Mr Kikuchi.

Elements of the old system, in which important decisions were made in secret by LDP factions, are of course still intact. The pact betweeo the LDP and SDP that brought the odd couple to office shows that governments can still be made by the backroom collusion of the LDP's heyday. The LDP and the SDP remain the first and second largest parties respectively.

Yet the framework in which they operate has shifted irreversibly. Japan has already moved from one-party rule to a system of three competing political groups; the rump of the LDP; centre-right reformist parties like the Japan Renewal Party and the Komeito clean government party; plus a left wing loosely grouped around the Socialists.

Political upheaval may be linked to Japan's longest economic downturn since the second world war, another challenge to the old power structure. There are signs of recovery, hut the recession has overturned several traditional assumptions about Japan's economic strength.

Unlike previous recessions, this one was at least partly caused hy internal structural weakness, rather than just by external blows, like a rise in oil prices. That is why the recession has been a long one, likely to be followed by weak growth, rather than the shallow dips followed by vigorous recoveries shown in previous cycles.

The recession has uncovered heavy overcapacity in the former engines of ecooomic advance, the car and electronics industries. These will take years to correct and provide a drag on growth in the future. No industry is an ohvious candidate to power the economy in the next decade, as cars and electronics did in tbe 1980s. Tbe government is hacking multi-media as one possibility, hut the international competition is intense.

There has also been a heavy external shock. In the past few weeks, the yen has risen for the first time through the psychological barrier of Y100 to the dollar, threatening to choke the fragile recovery by further squeezing the yen value of export earnings. Business leaders are running even more scared than they did in previous rounds of yen appreciation. The yen's ability to defy gravity means that even as Jspan comes out of recession, there will be no let-up in the pressure on industry to restructure. The outward shift of production capacity to cheaper locations in south-east Asia is accelerating, as a result, raising fears that Japan may deplete its industrial base.

Japan's formerly all powerful financial system has also been forced to face up to structural weaknesses. This downturn has left banks straining under a mountain of bad dehts, inherited from the unsustainable rise in asset prices of the late 1980s.

In previous recessions, banks could be counted on to tide their customers through hard times and provide the funds needed to finance recovery. But this time, banks are letting shaky corporate customers go under in record numhers, rather than allow bad loans to pile up faster. It will take several years for them to reduce bad debts to manageable levels, during whicb time the hanking system's ahility to fund a recovery may well be weakened.

Economic upsets have gone hand in hand with social change. Japan's social cootract, in which companies guarantee a joh for life in return for life-time loyalty, is up for renegotiation. Prominent standard bearers of lifetime employment, such as NTT, Nippon Steel and Toshiba, have had to cut their workforces. Others, including Sony and Honda, have replaced traditional seniority-based pay with merit awards and encouraged staff to compete for jobs.

One reason why Japanese industry still carries so much overcapacity is that it has restructured to nothing like the extent of its US and European competitors.

Yet the process has been radical enough to unnerve millions of salarymeo who used to think of the company as the staple of their personal lives and have learned to value corporate loyalty above personal initiative. The tradition of lifetime employment is still intact, but no longer guaranteed.

Social change has stretched to the behaviour of Japan's formerly passive consumers, who are flocking in record numbers to increasingly popular discount retail stores.

This is partly a symptom of tbe pressure on wages. But many analysts believe it also marks an underlying change in attitude. Consumers are starting to realise that they can no looger tolerate the fact that Japan's consumer prices are still oo average 80 per cent above the OECD average.

Consumers' new taste for a hargain has wide repercussions. It challenges the existence of the multi-layered distribution system, tbe main feature in Japan's bigh prices and a factor in the orderliness of its social structure.

Deregulation, given fresh emphasis hy governments over the past year, has also played a part. The practical impact has been slight so far, hut deregulation is popular and widely

□ Continued on page 3

IN THIS SURVEY

The economy stirs, but expect no miracles, writes **William Dawkins**

Solidity and maturity

Japan's consumers, industrial companies and banks are starting to adjust to the fact that they can expect nothing like the high growth of the 1980s during the second half of this decade.

The change down in economic gear is one of the many factors forcing Japan to challenge the values that used to lie at the heart of its economic power, like the dominance of producers' interests over consumers, the lifetime employment system and the tight-knit organisation of business into keiretsu, or corporate families.

Japan may have to learn to switch to a mature consumer-led economy rather than the fast growing industry-led exporter it used to be until the downturn hit, just after the turn of the decade.

A faltering increase in private demand has just started to arouse the economy from its longest and deepest recession in the post-war era. It may only walk rather than run into its next recovery phase, but few doubt that the worst is over.

Most economists in Tokyo believa that gross domestic product will recover from stagnation last year to growth between less than 1 per cent and 2 per cent this year, settling to something like one or two points below the 1980 average annual growth rate of 4.5 per cent. The main evidence for an upturn includes a 3.9 per cent annualised increase in gdp in the first quarter of this year, the best performance for three years. It could fall back again in the current quarter for seasonal reasons, but the underlying forces at work are clear, even if fragile.

Government spending packages have fed through to strong rises in housing starts, private consumption and imports in the first three months of this year. Imports, spurred by the yen's sharp rise, increased by just over 16 per cent in the year to last month, the clearest evidence that Japan's buge and politically troublesome trade surplus might now be on the turn.

Private consumption rose by 5.8 per cent in the first quarter. There has been a consumer spending spree in discount stores, often loaded with cheap imported goods, and helped by the gradual breakdown of Japan's retail and distribution cartels, incidentally one of the ways in which economic change is producing an adjustment in the structure of society.

Industry has started to reduce its vast inventories of unsold goods, but industrial production has yet to show a clear pickup. Output showed an apparently encouraging rise in the first three months of this year by comparison with the last quarter of 1993. Yet the monthly figures have switched direction every month since last August.

Industry has started to reduce its inventories of unsold goods

Recovery is being slowed in its early stages by the yen's recent historic break through Y100 to the dollar, an unwelcome new blow to the international competitiveness of Japan's manufacturing industry.

Some business leaders, such as Mr Takeshi Nagano, chairman of the Nikkeiren employers' federation, believe lhe yen's sharp rise could nip the recovery in the bud, just as a jump in the yen did when a phantom upturn appeared this time last year. Most economists, however, believe industry has cut its costs so sharply during the recession that the latest rise in the Japanese currency will merely slow, rather than choke, recovery.

Japan's chaotic political scene, with four governments in the past year, has also slowed the recovery by hampering ministers' ability to make difficult economic policy decisions.

Successive governments have, to their credit, delivered three public spending packages worth Y45,000bn over the past 18 months. But badly needed income tax cuts and further public spending have been delayed or blocked.

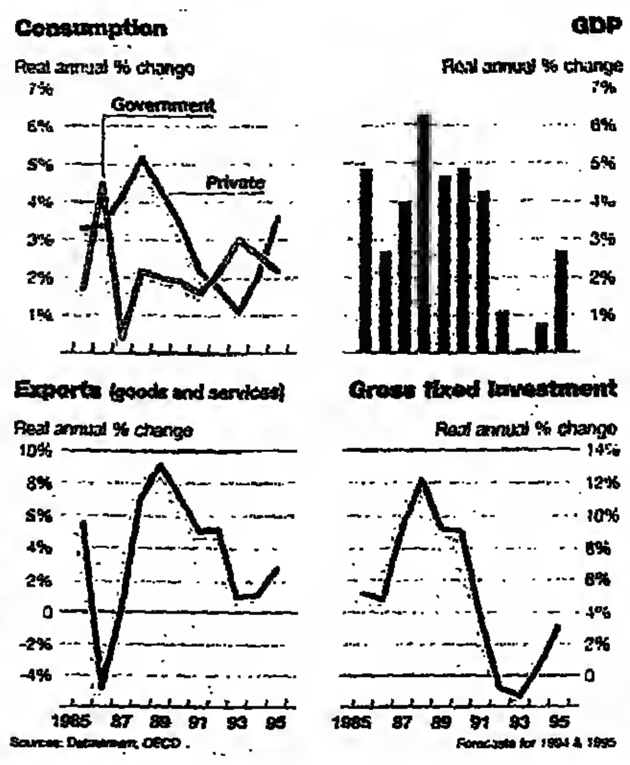
Japan's shaky governmeots have also done well to produce three deregulation packages over the past year, marking modest steps in the attempt to reduce Japanese costs and prices in line with international competitors.

But the political upheavals have delayed and possibly weakened the implementation of the most recent deregulation package, published last month. This is not all bad, since many economists believe deregulation should in any case be slow, to avoid creating too much deflation at a time when wholesale prices are already falling.

Looking beyond the immediate problems, the later stages of the recovery will be constrained by at least two structural problems - surplus industrial capacity and the weakness of the financial system.

Surplus capacity will force the industries that used to be the engines of Japan's economy to hold down wage increases, new employment and investment in the mature domestic market.

The car industry alone, for example, still has surplus production capacity of 2m vehicles, equivalent to the entire car market of Britain or France. It is not alone. The electronics, shipbuilding, engineering and financial services industries are all going into recovery with bloated payrolls. Their high costs are more of a handicap now than in the 1980s because of the sharp rise in the yen, by 35 per cent in trade weighted terms since early last year.



This means that Japanese companies will continue, as they did in the recession, to curb recruitment and to encourage early retirement, as a way to reduce capacity in line with demand without breaking the taboo against heavy redundancies. Lifetime employment will come under strain, but it will weaken rather than collapse, say Japanese managers.

According to a recent survey by the Ministry of International Trade and Industry, companies will increase capital investment by 1.1 per cent in the year to next March, yet most of this new cash will go to cheap production sites in China and south-east Asia, which represent Japan's fastest growing export markets and investment destinations.

The financial system, meanwhile, is making slow headway in running down lhe burden of bad debts, inherited from the boom in lending on lhe back of over-valued property during the sharp rise in asset values of the late 1980s. Since then, commercial property prices have fallen by up to 50 per cent and have shown no clear sign yet of recovery.

It is feared that the experience has made banks so cautious over extending new loans that the economic recovery may prove hard to finance. This is born out by the weak performance of the benchmark indicator of money supply, M2 plus certificates of deposit. It turned the corner carly last year, from a three year decline, but grew at a mere 1.7 per cent in the year to May, well below the 5 per cent annual growth which many economists believe is needed to fund a revival.

A farmer protests against imports of rice

A storm is brewing over imports of rice, writes **Emiko Terazono**

Some things are sacred

Mr Koji Takada, a 44 year old rice farmer in Kitakami, northern Japan, describes the future of Japan's farming as "grim". Although more than four generations of his family have been farmers he doubts whether his children will keep up the tradition.

He is one of the many Japanese rice farmers who have lost faith in the government's policy, doe to last year's decision to open the rice market to imports, and to the confusion following the shortage of domestic rice earlier in the year.

Japan will open its rice market to foreign imports next year under the Uruguay Round of trade liberalisation talks. For the first six years, imports will have limited access. In the seventh year tha market is expected to be fully open. Meanwhile, the rice shortage caused hy the exceptionally cold weather last summer triggered a rice shortage row, and the government was forced to import emergency supplies from the US, China, Australia and Thailand.

The row over the opening of the market heightened the sense of sanctity of home-grown rice, the cultivation and the harvesting of which remain at the roots of Japanese traditions and rituals.

In ancient Japan, rice was not only food to fill the stomach but a symbol of deities, or a means of connecting humans to the gods. The emperor, still considered by many as a living god, today plants rice seedlings in his private rice paddy behind the imperial walls.

Later, rice was used as taxes and traded like a currency, and would become a sign of wealth. In medieval Japan, rice and rice cultivation was turned into a cultural symbol by which Japanese woold differentiate themselves from the Chioese, Koreans, and westerners, an ideology hroadened and popularised by the military government during World War II.

Behind the symbolism, bowever, the opening of the rice market has highlighted the rigidly controlled farming system, which has become inefficient and outdated. Mr Takada's woes are shared with other farmers, who are concerned with the country's agricultural future.

The protection of the farmers, whose are votes are highly valued hy politicians, has come in the form of farm subsidies. In order to keep afloat the farming sector, which has an annual output of about Y10,000bn, the government pumps in about Y6,000bn. The figure rises to around Y9,000bn if subsidies from local government are included.

Others who have benefited from the system have been the 12,000 hureaucrats in the Food Agency, which have nothing to do all year except during the harvest, when they inspect rice. Around 350,000 people are employed by the numerous farm cooperatives, which work as an intermediary between the farmers and the government, selling agro chemicals and farming machinery to the farmers and collecting and distributiog the government's payments for rice.

In ancient Japan, rice was a divine symbol and was later used as taxes and traded like currency

But aside from Japanese consumers, who have had to pay around seven times the international price for rice, the farming community has paid the penalty for such distortions. Dependent onsubsidies and the state run distribution system, they have lost control over their livelihood. Farmers cannot buy or sell their land freely due to regulations on farmland transactions, while the state controls every aspect of rice farming from the planting to the retail sales. "The position of rice growers is little more than that of serfs working on state-owned farms," says Mr Taro Yayama, a political analyst advocating the farm reforms.

And in spite of the government's subsidies, rice production is not profitable. Mr Takada says while his income does not differ from office workers of the same age, after paying for farming machinery, fertilisers and pesticides, sold at higher than market prices by the farming cooperatives, "there isn't much left to spend".

The result has been a sharp fall in the country's farming population, which has declined from 3.7m in 1985 to 3.1m in 1990. The figure is likely to fall further to around 2.1m by 2000. At the same time the farmiog population is ageing rapidly and, according to the ministry of agriculture, the number of farmers under 60 in 1990 will be halved in 2000.

Not that the government is unaware of the problems. In 1992, the agricolture ministry released a report on food policy, agriculture and rural life. It called for consolidation of smaller farms for a more efficient system.

Reform advocates are calliog for a more radical reform, including briogiug in the market mechanism by deregulating state control, and freely allowing those who want to enter the sector.

However, the government has been slow to respond to the need for agricultural deregulation and reform. The new Murayama administration merely followed its predecessors by agreeing earlier this month to the ritual annual increase of subsidies to the farmers.

Although Japan still has six years before the official opening of the rice market, with no apparent gainers except consumers from full fledged farm reform, politicians, farmers and agriculture bureaucrats may continue to drag their feet. In the end, like so many other issues, Japan may once again need the help of outside pressure to rationalise the dwindling farming sector.

Industry is worried about its future, writes **Andrew Fisher**

It's tough at the top

To the rest of tha world, Japan atill seems an unstoppable economic leviathan which dominates many industrial markets, has a huge trade surplus – especially with the protesting US – and cultivates a work ethic superior to that of most competing countries.

But while its products remain successful and its people bard-working and disciplined, the picture is very different when seen from inside. Japan's high costs and strong currency, which last month forced the dollar below Y100, have put hurdles in the way of its continued industrial progress.

Industrialists and economists talk constantly about the potential "hollowing out" of Japanese industry as it opens more operations in lower-cost countries in North America, Europe and Soutb-east Asia. Big companies are striving to make their employees more flexible and productive by restructuring operations to cut coats and increase efficiency witbout sacrificing lifetima employment and destroying loyalty and motivation.

It is proving tough. After investing beavily to maet demand during the expanding "bubble" economy of the late 1980s, many companies have too much capacity.

"After the bubble, corporations faced a huge cost burden as they had expanded too much," says Haruo Shimada, economics professor at Keio University. They have cut down on recruiting, leaving a trail of disaffected graduates, and eased back sharply on pay. Many are also trying to move away from the tradition of pay by seniority rather than merit and ensure that ahle managers move faster up the ladder.

Making workers redundant to cut costs is virtually unheard of in consensus-minded Japan. Not only is it culturally unacceptable, and legally awkward, bnt some companies fear they may be short of labour again once the economy picks np. Even so, workforces are being reduced as companies do not replace those who leave.

"Japanese management is facing a huge challenge," says Mr Masaya Miyoshi, director general of the Keidanren, the Japanese business federation. "The system needs overhauling." Some companies are taking tough action within the constraints of the Japanese system. In cars and computers, Honda and Fujitsu are shaking up their management structures, looking at every aspect of their operations and trying to inject a more entrepreneurial spirit into them.

Honda's Nobuhiko Kawamoto: trying to move with the times

"It's not enough just to cut the workforce," says Toru Katsurada, a director of Fujitsu, which made a loss in 1992 bnt is now back in profit. "We need to review every business we are in." The Nissan car company has even taken the bold step of closing its plant at Zama to concentrate output in newer facilities. But the closure is being spread over two years and the 2,000 production workers shifted to other sites; no-one is being laid off.

Nissan's plan is to cut costs by Y200bn ($2bn) up to 1996, much of it by sharing more components between different models. Honda, Toyota and Mazda are also rationalising the way they build cars. About 50 per cent of the parts used in Honda's newest Accord family car are shared with the previous model or with others in the range; previously, it was only 10 per cent.

This amounts to a big saving. But Honda is also trying to revitalise its management by moving aside people who do not progress fast enough and introducing performance-based pay. This is vital, says Mr Nobuhiko Kawamoto, Honda's president, if it is to move with the times. "We are trying to cope with the problem of the decline in Japan's competitiveness in world markets due to the high yen and political issues." The latter mainly concern US attempts to persuade the Japanese industry to buy more parts there.

As Mr Kawamoto points out, many of the steps being taken by companies like Honda go against the traditions built up in growth-conscious Japan after World War Two. Until the post-bnbble recession, companies prized their keen and productive employees who in turn valued their lifetime conoections witb an employer wbo gave them a sense of belonging and security.

But in these harsher times, companies need to become more flexible and their operations more transparent. "The traditional Japanese system is now in direct conflict with the competitiveness-oriented system of the western world," adds Mr Kawamoto. Younger Japanese are more in tune with western ways of living and working. So the actions of companies like Honda have to take their aspirations and abilities into account.

Nissan's Kyushu plant: gradual moves to cut $2bn of costs

"Therefore," says Mr Kawamoto, "we have to survive through this period of barsh competition and yet maintain the good features of the Japanese tradition. We want to give the next generation something to hope for." In the opinion of Mr Shintaro Hori, managing director of the Bain consultancy in Japan, this virtually means two companies in one. "Honda needs a young, motivated, fast track, performance-oriented company and another more middle-aged, balanced, judgment-oriented company. If it can keep this balance, then it has a great advantage."

In the case of such globally-minded industries as cars and computers, this may work. Mr Matthew Ruddick, car analyst at stockbroker James Capel Pacific in Tokyo, believes the cost-cutting activities of the car companies will benefit profits considerably. "There is good reason to be optimistic about the automotive industry."

Even if the market improves, though, there will still be a surplus of jobs and capacity. But reinvigorating Japanese industry as a whole, without destroying the social and cultural values which helped it become successful, is far more challenging. For one thing, much of the Japanese economy is highly regulated which keeps up costs and hinders competition; moves to change this are proceeding slowly. Also, notes Mr Shimada, "we have a lot of inefficient sectors". He reckons only a third of manufacturing industry is competitive in world terms, while large areas like construction, transport and distribution have high costs and low productivity.

He adds, ominously: "If companies and the government don't take drastic reforming action, we'll be pulled into a declining scenario year after year." More operations will be carried out abroad and Japan's steadily rising standard of living and ability to create jobs will be threatened further. Not all see the future in such stark terms. But even the Keidanren's Mr Miyoshi believes the pessimists among Japanese industry are currently in the majority – "by bunch, I would say 60 per cent pessimists and 40 per cent optimists. I'm right in the middle."

Social upheaval

□ Continued from page 1

accepted. Consumers' interests are starting to assert themselves in a society traditionally dominated by producers' interests.

It is no surprise that, with all these changes churning away at home, Japan is redefining its place in the international community. The first step has been to start renegotiating its traditional dependence on US leadership.

This is a belated response to the end of the cold war, which has reduced Japan's role as a passive US-sponsored bulwark against communism in Asia.

Evidence of this is Japan's newly assertive stance on economic relations with the US, as shown by its continued opposition to US demands for numerical targets for increases in imports.

When Mr Morihiro Hosokawa met US President Bill Clinton in February, it was the first time that a Japanese prime minister chose to come away from a US summit without an agreement, rather than make concessions. Yet Japan's dependence on US military protection is as strong as ever and may increase with North Korea's nuclear ambitions.

While Japan rethinks its US relationship, it has – again belatedly – started to make overtures to its increasingly important Asian neighbours. Mr Hosokawa's unprecedentedly explicit apology for Japan's wartime record helped, for a while, to reduce Japan's isolation in Asia. Unfortunately, the gesture was ruined later when a justice minister in the next government denied that a notorious wartime atrocity had ever occurred.

Japan's search for a credible voice of its own will be as sensitive and difficult as the rest of the changes sweeping through the country. Japan is changing from a passive economic machine to something different, but as yet incompletely defined.

Andrew Fisher studies the potential for more de-regulation

Yes, we have no bananas

When The Body Shop wanted to sell in Japan shampoo made from bananas, it took one-and-a-half years to get the necessary approvals. "They never thought of bananas as an ingredient," says Mrs Mitsu Kimata, bead of the UK company's operation in Japan, about the attitude of Ministry of Health and Welfare officials.

Water melons are also not on the approved list of cosmetic ingredients. So bringing in a sun-care product made from this fruit is also taking time. "I hope we can get it next summer, but it was developed last year." Not surprisingly, she adds: "Japan is one of the most restrictive countries that Body Shop operates in."

The complaint is echoed by a host of foreign, and many local, companies in Japan. Despite government initiatives to promote deregulation – the latest was announced last month – there is scepticism about the pace of change, especially now the government has changed yet again. "It'll take light years," says Mr Peter Woods, president of Rover Japan, about the prospects for progress.

A recent survey of foreign companies in Japan, of which there are more than 3,000, showed that 58 per cent thought it was more difficult to operate there than in other advanced countries. The extreme cost of land and rents was the main reason, followed by high prices of goods – generally twice as high as in other industrialised countries – and the number of government regulations. However, the survey by LBS, a firm which provides services to non-Japanese companies, did find that 39 per cent of respondents felt it had become easier to do business in Japan.

But the progress of deregulation was well down the list of reasons for this. Companies felt instead that more goodwill was oow being shown to outsiders, while they had developed a better understanding of Japanese business customs. Either way, said Mr Honare Takenaka, a senior managing director at IBM Japan (which helped set up LBS), in the survey's foreword, "the Japanese market as seen from foreign eyes is still fraught with many obstacles in the form of regulations and puzzling business practices."

The latest government package promised action on 279 regulations. These cover housing and land, telecommunications and financial markets, as well as the acceptance of foreign inspection data and standards for more imports. There are more than 10,000 regulations inhibiting an estimated 40 per cent of the economy. Former prime minister Mr Morihiro Hosokawa last year launched a five-year campaign to sweep away this forest of rules after previous governments had failed to reduce them.

Japan's bureaucratic system served the country well as the economy recovered and grew after World War Two. "The Japanese system has been built on the philosophy that this is a country poor in resources but rich in people," says Mr Takenaka. But growth has changed all that. "Now, we are at an economic stage where Japan is not poor. It should be more open to foreign companies and people, more free. But the historical heritage remains as a barrier."

One area where Japan has been most heavily criticised is car imports, still only accounting for 5 per cent of the total market. For years, foreign makes were hindered by high tariffs and a raft of regulations. The tariffs have gone and it is much easier to sell foreign cars; the streets of Tokyo are full of them. Helped by the strong yen, car imports have soared this year.

But there are still big hindrances, says Mr Woods. "The Japanese are rather consistent, stubborn and rather networked." The Ministry of Transport is slow to change its rules – especially on inspection – and has to be persuaded, even if the pressure is coming from high political level; some politicians, pursuing special interests, obstruct attempts to free up the system.

Also, there are informal rules which are hard for outsiders to comprehend. "Guidelines are operated which are almost not written. There is a tremendous level of power in the hands of the bureaucrats." This they will not give up lightly. Mr Nobuhiko Kawamoto, president of the Honda car company, notes: "Everybody talks of deregulation – but if it is implemented full-scale, there will be a lot of lay-offs among bureaucrats and civil servants."

The high level of regulation keeps prices high. Japanese workers at Honda making the same cars as its workers in the US earn more at the current yen rate. "Yet the standards of living enjoyed by the Japanese workers are far below those enjoyed by the Americans."

The experience of The Body Shop shows how regulations keep up costs. Currently, it can sell less than 70 per cent of the full range of products in Japan. Mrs Kimata hopes to raise this to 85 per cent next year. If ingredients – such as exotic fruits or oils – are not on the ministry's approved list for cosmetics, there are delays due to testing (for which the company pays).

She hopes deregulation will ease the way for Body Shop products and make them cheaper. But many Japanese companies would benefit, too. "Deregulation will create new businesses," believes Mr Masaya Miyoshi, director general of the Keidanren, the business federation. "Companies, citizens and customers will be encouraged to think about their own responsibilities. Finally, we will get away from the umbrella government."

JAPAN 4

Tokyo protest over imports of French-reprocessed plutonium Reuter

■ NUCLEAR POWER

Thirty percent and rising

As the heat and humidity soar in the sweltering Japanese summer, electricity companies have to shift gear to keep up with demand. Air-conditioners, refrigerators and juice extractors make life more comfortable for those who can afford them, but put a huge extra burden on generating capacity.

With energy use climbing steadily and no natural fuel resources of its own, Japan has long put its faith in nuclear power, a policy reinforced by the oil crises of the 1970s. More recently, the government and the nuclear industry have gone to great lengths to win the population over to the idea of yet more energy from uranium and plutonium.

Already accounting for 30 per cent of electricity generation - the country has 46 nuclear power plants with seven more on the way - the scale of the nuclear commitment is set to rise further.

Yet several factors have combined to slow down the nuclear energy drive. Concern over nuclear proliferation, especially after North Korea's reluctance to allow international inspection, has focused foreign attention on Japan's technological prowess in the nuclear field, despite protestations from Tokyo that it has no intention of using plutonium to make weapons.

Japan's growing environmental consciousness is also playing a role. So is the fact that uranium, used in the present light water reactors, looks likely to be in plentiful supply for many years. Thus the government has just decided to hold back on further development of the fast breeder reactor (FBR) programme, based on plutonium, and on building a second nuclear fuel reprocessing plant.

This plant, on which a decision will not now be taken until 2010, would follow one being built some 700km north-east of Tokyo in an area of lush fields and low hills near the town of Masawa at a cost of Y1,250bn ($12.5bn). Chattering school children and attentive adults tour the visitors' centre at the Rokkasho reprocessing and waste disposal plant near the Pacific coast.

In the smartly designed centre, the workings of the facility are demonstrated - from the treatment of spent fuel and the enrichment of uranium to the storage of radioactive waste. A smiling hostess points to a display of yellow drums in which low-level waste from power stations will be buried in concrete; some 3m drums will eventually be stored.

Although the Japanese people broadly accept the case for nuclear energy, they have reservations. The government says 70 per cent believe in its necessity but only 40 per cent think it is safe. Also, said a recent report by a nuclear advisory sub-committee of the Ministry of International Trade and Industry (Miti), "the public has a low degree of confidence in information on nuclear power generation provided by the government and electric utilities".

The 7.5m sq m Rokkasho site, partly completed and partly a hive of round-the-clock construction activity with tall cranes piercing the skyline, is central to the government's aim of providing security of energy supply for resource-poor Japan. The enrichment facility, in which the concentration of heat-generating U-235 is increased, is building up its operations, while the first huge pit for storing the drums is now in use.

Reprocessing will not start until around 2002, also a slight delay. But Rokkasho is already a symbol of both the nuclear industry's ambitions and the concern in and outside Japan over how far it intends to go down the nuclear road. Despite constant reassurances from Tokyo, suspicions about the possibility that the country may one day build nuclear weapons persist.

It certainly has the skills to do so. Even the previous prime minister, Mr Tsutomu Hata, whose minority government collapsed last month, admitted as much. Yet anyone who has visited the Peace Museum at Hiroshima with its horrific exhibits from August 1945 when Japan became the only country to suffer atomic bombing, will understand its reluctance to enter the nuclear arms race. "We have to show foreign countries how we are keeping to peaceful uses of nuclear power," says Mr Teruaki Masumoto, head of communications at Tokyo Electric.

The overseas concern, especially in the US, has arisen mainly over Japan's nuclear fuel cycle policy - with uranium reused after spent fuel is reprocessed - which would result in the production of plutonium, which could be used to make nuclear weapons. "The idea that surplus plutonium could be used to make a bomb is very controversial," admits Mr Harushige Takeuchi, a general manager at Rokkasho. "Japan has no intention of doing that; the point is to use the nuclear fuel resources in the most practical and economic way." Officials at Miti echo this. But while stressing the absence of military ambitions, they argue that Japan's nuclear policy is vital to secure long-term electricity supply in a country which is a voracious consumer of energy.

Japan used to be heavily dependent on imported oil, which accounted for around 70 per cent of its needs. Today, this is down to some 30 per cent. At Tokyo Electric, the share of electricity produced from nuclear power units, of which it has 15, is set to rise to 43 per cent in 2003 from 37 per cent last year.

The company appears unworried about the FBR delay. The Y600bn Monju prototype facility has now begun operations after technical problems. But commercial use of fast breeders has been postponed by 10 years to 2030, with the planned demonstration plant (to be built by industry) put off from the late 1990s to early in the next century.

The slowdown in policy will lessen the supply of plutonium and should thus abate concern over non-peaceful uses. But Tokyo Electric's Mr Masumoto thinks the FBR will eventually go ahead. "No-one knows if a third oil shock will come. We have to prepare something as insurance." So while the FBR programme is on hold, R&D work will carry on at full stretch.

Andrew Fisher

Finance houses start to pick up the pieces, writes **Gerard Baker**

The bubble that burst

The last few years have revealed a simple but unpalatable truth aboot Japan's financial institutions. Though they rank as the largest companies of their sector in the world by almost any measure, their strength was never commensurate with their size.

Banks and hrokers have been brought low by the hursting of the bubble that inflated them in the late 1980s. Both look set for a long period of reconstruction.

The banks hoast that the last year was a watershed in the struggle to discharge the bad loans of the bubble period. In their annual reports for the year ended March 31 in May, most of the major city banks, trust banks, and long-term credit banks declared that the worst of the prohlems were over. All 21 banks announced sharp falls in profits as a result of beavy provisioning for bad debts.

As Mr Kensnke Uchida, director for corporate planning at Sumitomo Bank pnts it: "Our policy of provisioning for bad dehts means that this year will mark the end of the adjustmeot process."

The main piece of evidence to support the claim is that total disclosed nonperforming loans actoally declioed from September 1993, implying that last autumn banks scaled the peak of the bad deht mountain. Bot more important is the fact that the banks' loan loss reserves surged as tbe companies finally grasped the bad loans nettle.

Declared non-performing loans now stand at a total of Y12.5 trillioo, with specific loan loss reserves at Y3 trillion. Baoks have tbus now made bad loan provisions for 24 per cent of the total of disclosed nonperforming loans, up from 16 per cent last year. This is a significant step in the clearing np process and if it told the whole story wonld be an encouraging development.

But it is, of course, only part of the overall picture. Banks' disclosed nonperforming loans inclnde only those to bankrupt borrowers and those on which no ioterest has been paid for six months or more. They do not inclnde "restructured" loans, where interest rates have been pared to the bonc to keep troubled borrowers alive. Last month Mitsubishi Bank gave tbe first tantalising glimpse of the real scale of the problem when it became lhe only Japanese bank to release its accounts under US accounting rules. They showed nonperforming loans to be twice the level declared in Japan.

Furthermore, even some of the improvement recorded in the figures for last year is illusory. Last year banks sold Y3.3 trillion of their worst loans to a newly established institution, the Cooperative Credit Purchasing Council (CCPC). The CCPC helps banks "dispose" of their bad loans by buying them at a discount. Tbe banks write off the remaining charge.

But the banks have to lend tbe money to the CCPC to enable it to buy the loans in the first place, so the risk, if the CCPC fails to dispose of tbe collateral, remains with tbe banks. The really bad oews Is that so far the CCPC has collected just one per cent of the value of the loans it has bought. And the average discount at which the CCPC buys the loans has been increasing sharply - last month it reached over 70 per cent. If it fails to dispose of the loans it has bought, the banks will have further provisioning to do.

These two factors lead most analysts to estimate that Japanese banks' actual total problem loans are roughly twice the disclosed amount - more than Y25 trillion, or at least 6 per cent of total loans. That will require significantly higher write-offs, and, consequently, several more years of sluggish profits.

According to IBCA, the bank credit-rating agency, "it will take another two or three years for the average bank to clean up its balance sheel by using operating profits and hidden reserves".

But perhaps even more disturbing for the longer term is a growing weakness in the banks' underlying performance. Pre-provision operating profit declined for the first time in three years last year as interest rates fell close to the bottom of the current cycle, and non-interest-related revenue registered sharp falls in profits from forex and bond dealing.

In fact, stripping away the various layers that disguise the weakness of the core performance, the only source of profits from which to offset the large loan loss provisions remains sales of equities. Once again the major hanks are forced to rely on a rising stock market to support their profitability.

At least the country's four major stockbrokers - Nomura, Daiwa, Yamaichi and Nikko - managed to record increases in pretax profits last year. But the earnings recovery was weak, and from an unprecedentedly low base Nomura, the largest stockbroker in the world, saw pretax profits rise to nearly Y50bn, down from almost Y500bn in 1989-90.

But for the middle-sized and smaller hrokers it was another difficult year. Nearly half of all hrokers listed on the first section of the Tokyo Stock Exchange recorded pretax losses. The principal problem they face is heavy dependence on equity commissions. Even the Big Four earn a third of their operating revenue in this way. For many of the smaller firms the figure is over 50 per cent.

They are thus heavily vulnerable to the ebbs and flows of investor interest in the market. The last year has seen daily turnover on the TSE recovering slightly from post-huhble blues, but at 368m shares per day, it is still nearly 100m shares per day lower than tho break even point for most brokers.

Getting that breakeveo point down has been the key task for most, and cost-cutting has been carried further in the sector than in most other parts of the economy. Staff levels for the industry are down by 22 per cent to 129,000 from the peak of 167,000 io 1991.

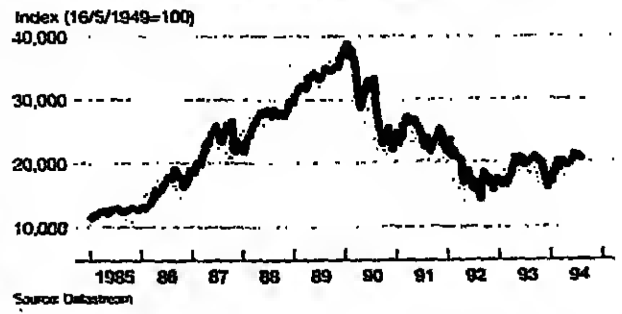
The need to cnt costs is made more nrgent by the threat posed by deregulation. In the last year, three banks have established broking subsidiaries and later this year a further half dozen are expected to do so. Though the banks are prohibited from trading eqoities, their underwriting buiness is eating into the brokers' revenuc base.

The large banks and brokers have sufficient capital to see tbemselves through several more years of difficulties. But some smaller banks and brokers have very little room for manoeuvre. The Ministry of Finance is anxious to avoid collapses and is likely to try to organise a rescuc through merger should a failure come.

But this approach is itself symptomatic of Japan's problems. The financial institutions have operated for too long on the assumption that they would not be allowed to fail - hardly a major incentive to greater efficiency. They claim that current problems arc merely the backwash of the collapse of the hobble economy.

But as the excesses of the 1980s recede further into the past, lhe truth is that many companies never were world-class competitors. The last few difficult years have merely exacerbated their problems; they did not create them.

Tokyo stock exchange's Nikkei 225 index



Source: Datastream

Memories: Koreans seek Japan apology over use of wartime sex slaves

Asians concentrate on bid for Japanese capital, says **Victor Mallet**

So polite about the past

When Asians fret about Japan these days, they are rarely concerned by Japanese atrocities in Asia during World War Two or the tactless denials of Japan's war record by right-wing politicians in Tokyo; they are usually anxious about winning a share of the next round of Japanese investment.

Except in China, Korea and occasionally in the Philippines and Singapore – whose peoples suffered most from Japanese imperialism – there is little interest in Japan's tentative efforts to adopt a more assertive foreign policy to match its economic power.

Asian governments and businesses from India to the Philippines are more preoccupied by Japan's money and manufacturing skills than its history. This is especially true of south-east Asia. Japanese investment in everything from vehicle assembly to the manufacture of computer disk-drives and air conditioners has been the driving force behind the rapid economic growth of countries such as Thailand and Malaysia since the 1970s.

More than 90 per cent of cars in Thailand are Japanese marques, most of them assembled in Thailand. In Malaysia, the factories of the Japanese company Matsushita alone account for about four per cent of the country's gdp.

The recent liberalisation of the economies of China, Vietnam and India was therefore regarded with some trepidation in south-east Asia, because it was assumed that these three capital-hungry countries would receive so much Japanese investment that the rest of Asia would be starved of new money.

At first the figures appeared to confirmed the hypothesis. Japanese investment at the start of the decade rose sharply in China – Hitachi says six of its nine joint ventures in China were established in the past three years – and fell in some traditional south-east Asian recipient countries. Governments hurried to improve their investment incentives.

They need not have worried. The remorseless rise of the yen against the dollar has obliged Japanese companies to move increasingly sophisticated production lines offshore where wages are lower, and the big corporations are being followed by component suppliers which also need to reduce costs to remain competitive.

Broadly, investments in China are designed to supply goods to China's huge domestic market or to produce labour-intensive products for export. The various national markets of south-east Asia are also important (especially Indonesia and Thailand), but the purpose of many new Japanese investments there is to produce medium or high-technology products for export to Japan, America and Europe.

Mitsubishi Electric, for example, shifted production of its standard line of elevators from Japan to Thailand in 1991. The same company says that since last year it has been producing 90 per cent of its floppy disk drives in Thailand.

Last year for the first time Japan imported more colour televisions than it exported; the same is true of other products such as refrigerators. Hitachi is in the process of shifting production of one type of refrigerator compressor from Japan to a new factory in Ayudhya north of Bangkok, and is building a facility in the Philippines to make mini hard disk-drives.

But the six members of the Association of South East Asian Nations (Asean) – namely Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand – will have to deal with two potential problems in their partnership with Japanese companies if they are to prosper in the midst of corporate Japan's growing fascination with China and India: the first problem is the slow evolution of the Asean Free Trade Area (Afta), and the second is a dispute over technology transfer.

Although the influential Japanese motor industry managed through lengthy negotiations to secure special tariff reductions for car components traded between Asean countries – the so-called "brand-to-brand complementarity scheme" – Japanese and other manufacturers are often frustrated by the difficulty of establishing integrated operations within Asean.

Car component maker Nippondenso, for instance, is in the throes of negotiations with Asean governments; the company wants to specialise in particular products at each of its factories in Asean instead of duplicating its efforts in several different countries.

Afta is an attempt to deal with this sort of difficulty, but under the present agreements individual countries can and do undermine free trade principles by excluding numerous products they regard as sensitive from the tariff cuts. Even for products embraced by Afta, tariffs are scheduled to fall to between zero and five per cent only in the year 2008.

Economies of scale are therefore not always available in Asean, at least not for the regional market. "If they want to grow faster they have to give up these nationalistic policies," says Mr Minoru Tsukada, manager of Asian business development at Hitachi.

If Afta succeeds, therefore, Asean members may have to watch Japanese companies close down operations in one country and consolidate their operations in another – a process which has from time to time caused nationalistic outrage in parts of Europe.

And if Asean baulks at such rationalisation, Japanese companies can always mention China. Mr Nobuhiro Ogura of Mitsubishi Electric says of the company's television plants in Thailand, Indonesia and Singapore (the Singapore operation is expected to move to neighbouring Johor State in Malaysia): "Either we still continue to produce in those three locations; or by integrating and increasing the volume we reduce the cost; or we establish a new facility in China and we discontinue those which produce in smaller countries."

As for technology transfer, non-Japanese Asians often accuse Japanese investors of arrogantly refusing to pass modern technology to developing countries or promote enough locals to management posts. This was particularly true of Proton, the Malaysian carmaker in which Mitsubishi Motors has a 15 per cent stake.

Japanese businessmen can barely hide their impatience at such accusations, pointing out that technical knowhow takes time to acquire and cannot simply be handed over like a car component. They complain of everything from a lack of trained scientists to unstable electricity supplies.

But they acknowledge that they have been slow to move research and development activities into Asia, and are gradually starting to do so now.

In spite of Japan's war record in Asia, and in spite of occasional disputes, commercial relations between Japan and the rest of Asia seem to be warmer than ever. A decade ago, Japan exported a third more to the US than to Asia; now it exports a third more to Asia than to the US.

US trade officials look to Asia for allies when they argue with Tokyo over Japan's trade surpluses, because, like the US, many Asian countries suffer from severe deficits in their trade with Japan. One reason why the US finds little sympathy in Asia is that Asian exports to Japan are increasing, and many of those exports are Japanese branded products made outside Japan.

Foreign policy is in the melting pot, writes **William Dawkins**

Towards a new Far East role

"If Japan evades the costs associated with free trade and stability, world peace and freedom, we run the serious risk of denying ourselves our own peace and prosperity.

"Despite the gravity of the situation, Japan's political world – which is supposed to recognise harsh realities and steer the country in the right direction – is at present unable to make any effective decisions at all."

This passage from *Blueprint for a New Japan*, the political best-seller by Ichiro Ozawa, the former government's backroom strategist, became painfully relevant last month when the fourth government in the space of a year took office, thus disrupting Japan's sensitive process of waking up to its responsihilities in a newly unstable post-cold war era.

It is perhaps unfair to accuse Japan of not shouldering its burden, since it has been the world's biggest provider of development aid for the past three years. Moreover, Japan will lift its assistance budget hy 1.6 per cent this year, rather more than the overall state budget, at a time when other leading donors are suffering from "ald fatigue".

Even so, the fact that until the collapse of the Soviet Union in 1991 Japan was spared the military or economic cost of stability is generally accepted as an element both in its economic success and its diplomatic weakness.

While the US assured peace in Asia, partly through the presence of its troops on Japanese soil, Japan concentrated on economic growth, a strategy known as the Yoshida doctrine, after the prime minister who was the architect of the post-war Japanese atate. In return, Washington knew it could count on Japan as a hulwark against communism in Asia.

The US-Japan balance, the pivot of Tokyo's foreign policy, has now become less predictable, partly because of the end of the cold war, hut also because of Japan'a own vagaries.

In theory, the Social Democratic Party of Mr Tomiichi Murayama, the new prime minister, wants to eod the US-Japan security treatment. the staple of Tokyo's special relationship with Washington. In practice, Mr Murayama, has pledged to honour the treaty, reflecting the fact that he owes his position to the support of the conservative Liberal Democratic Party.

The conservative nature of the new government may keep the special relationship with Washington intact. But it also marks a break with the policy created by the previous two coalition administrations, of abandoning Japan's passiveness in international affairs and seeking to make a greater contribution oo the world stage.

One of Mr Murayama's first acts as new leader was to tone down the campaign to be admitted as a permanent member of the UN security council, the top table of tha world's top

Yasushi Akashi, the UN special envoy for former Yugoslavia

powers. Bafflingly for Japan's foreign partners, this came only weeks after his predecessor, Mr Tsutomu Hata, made an unprecedentedly explicit bid for the council seat. The Murayama administration is also more cautious than the previous one possible sanctions against North Korea, cause for some anxiety in Washington.

While the political storms rage overhead, Japan's professional diplomats have been striving to keep foreign policy

Mrs Sadako Ogata, UN high commissioner for refugees

on course. Indeed, the frequent changes of governments have increased their responsibilities more than is the case for most bureaucrats.

In recent weeks, Japanese diplomats won praise from western officials hy lobhying China to ohtain good hehaviour from North Korea and helping to smooth relations between the UK and China over Hong Kong. Two prominent Japanese, Mrs Sadako Ogata, UN high commissioner for refugees, and Mr Yasushi Akasahi have played leading parts in Bosnia, a conflict in which Japan's short lived governments have had no time to take an interest.

But perhaps the most sensitive task facing Japan's foreign policy makers today is the subtle renegotiation of the relationship with the US.

The foreign ministry wants to keep the US security link as tight as ever, yet at the same time other departments, such as the finance and international trade and industry ministries, want to test the limits of Japan'a post-cold war freedom to be more assertive towards the US on trade and economic issues. "Wa are getting both more and less assertive towards Washington," says Mr Kiyoaki Kikuchi, a former ambassador to the UN.

Former prime minister Morihiro Hosokawa's agreement to disagree with President Bill Clinton, at their summit in February, over US demands for numerical targets for increases in imports to Japan, made it look as if Japan was ready to tilt away from Washington.

It was a remarkable break with the comfortable tradition of US-Japanese summits, in which the Tokyo side would hand over trade or economic concessions in return for promises of everlasting protection.

Senior foreign ministry officials were, unsurprisingly, worried that the trade row would spill over into security relations. To their relief, the Clinton administration has softened its tone towards Japan.

The trade dispute might be under precarious control for the moment, yet it is only the latest example of Japan'a difficult search for a voice independent of Washington.

It ignored Washington in 1990 by resuming aid to China after the Tiananmen killings and was a persistent exponent of avoiding a link between trade and human rights.

Japan ignored the US embargo on Vietnam two years ago and is now resisting US pressure to step up aid to Russia because it first wants progress on the disputed Russian-held Kurile islands north of Japan.

The common theme in these gestures of independence from the US is the growing importance to Japan of its Asian neighbours. They represent Japan's largest export destination, its fastest growing market and its fastest growing destination for industrial investment.

Japan is cantiously feeling its way towards a new role in Asia. It is a highly sensitive process, constrained hy local wartime memories, which prevent Tokyo from seeking regional laadership, and Japan's own wish oot to weaken that sacred link with Washington. "How can we tilt towards Asia without tilting away from the US?" muses one Japanese diplomat.

Japan's ministry of international trade and industry took an influential, but discreet part five years ago in forming the Asia-Pacific Economic Cooperation Forum, a grouping designed to foster economic cooperation in the region.

But Japan has taken a low profile in Apec discussions. Its search for a voice has not been helped by Malaysian prime minister Mahathir Mohamad's calls for an East Asian Economic Caucus, to exclude non-Asians. Mr Mohamad's scheme places uncomfortable pressure on Japan to do just what it wants to avoid, choosing between the US and Asia.

So far, Tokyo has managed to suppress the dilemma thanks to an accord between Asean countries to subsume Mr Mohamad's caucus into Apec. But Mr Mohamad continues to criticise Japan's non-committal stance.

Japan will have an opportunity to move closer to Asia's centre stage next year when Apec leaders are due to hold a summit for the first time in Tokyo.

Japan is, meanwhile, pushing regional cooperation on security through an 18-country Aaean Regional Forum, inspired by a former Japanese foreign minister, which will hold its first meeting in Thailand at the end of this month.

Diplomats hope that this will at least start a regular exchange of security information between often distrustful Asian neighbours, though the first meeting is likely to be of merely symbolic value. The mere fact of getting the militarily powerful China engaged in multilateral debat will be valuable, say analysts.

The forum's Bangkok meeting will also be an indicator of the state of Japan's regional image. Mr Hosokawa's unprecedentedly explicit apologies last autumn for Japan's wartime record and the participation of Japanese peacekeepers with the UN in Cambodia two years ago may hava helped soothe wartime memories.

Yet Japan's credibility was damaged by a former justice minister's claim in May that an infamous wartime atrocity never happened: another reminder of the constraints on Tokyo's tilt towards Asia.

William Dawkins charts the end of a political era

The triangle breaks

Seismic upheavals in Japanese politics over the past year have caused the old power structure to shift and crumble, but a new one has yet to take its place.

The dominance of the Liberal Democratic Party, which has just returned to power after spending nearly a year in opposition for the first time in its 39-year life, has been terminally damaged. Unstable coalition governments may be the norm for the next few years.

Japan's conservative post-war rulers were only able to seize power three weeks ago thanks to the support of their lifetime enemies in the left wing Social Democratic Party, a telling sign of how completely the old balance of power has been upset.

It could take several general elections before stability returns. As so often in Japan, underlying change is not as fast as it looks on the surface.

The LDP's defeat in a general election last year, precipitated by the defection of reform-minded politicians from its own ranks, led by Mr Tsutomu Hata and his mentor Mr Ichiro Ozawa, ushered in what looked like a radical seven-party coalition. Led by an idealistic former prefectural governor, Mr Morihiro Hosokawa, it embraced a wide range of interests from the religious right to the extreme left and promised to introduce a new poltical style and structure.

Mr Hosokawa won instant popularity by staking his job on achieving parliamentary agreement on a new political and electoral system designed to curb corruption.

The Keidanren, Japan's powerful business federation, recognised that the old system was really on the way out when it decided, days after Mr Hosokawa's arrival, to stop channelling funds to political parties. Keidanren cash, in return for a guarantee that government would be sensitive to big manufacturing industry's voice, was crucial to binding the so-called iron triangle of business, politicians and the bureaucracy together. The LDP's return in no way tempts the Keidanren to change its ban on political donations, says its new chairman, Mr Shoichiro Toyoda.

Failure to deliver on political reform, under debate for the previous five years, had contributed to the decline of two former LDP prime ministers. So it was no surprise that Mr Hosokawa had to water down his proposals to obtain agreement from the reluctant LDP and SDP old-guards, many of whom fear they will lose their seats under the new system.

The final plan, agreed in January, will tightly regulate political fund raising and replace Japan's unique multi-seat constituency system with a mixture of single seat districts and proportional representation. All that remains is for new electoral boundaries to be drawn, to reflect the new system and to increase the power of under-represented urban voters. The new government of Mr Tomiichi Murayama aims to complete this by the autumn.

Soon after Mr Hosokawa's political reforms cleared parliament, his coalition was plunged into a divisive argument over tax. At this point, old style Japanese politics began to take its revenge. The LDP, resorting to a tactic used against itself while in government, blocked parliamentary debate on this year's budget to put pressure on Mr Hosokawa to disprove two not so serious allegations of personal financial impropriety.

An increasingly tired and frustrated Mr Hosokawa joked over dinner with friends that he might as well resign. Two days later, in early April, he did just that, to the surprise of both his allies and enemies.

The old order, in which decisions are made by consensus in backrooms rather than debated in open parliament, began to reassert itself. Evidence of this was a secretive deal between centre-right members of the coalition to form a parliamentary group, called Kaishin, or innovation, with the blessing of Mr Ozawa, the government's brilliant but accident prone backroom strategist.

The SDP, the largest member of the coalition, promptly walked out in anger at being excluded. This deprived the government of a majority only hours after it had selected – ironically with SDP support – Mr Hata, the former foreign minister, as the new prime minister. From that moment, the Hata administration was doomed. The opposition consented to keep it in power only until the current year's budget, already three months overdue, had cleared parliament. Rather than lose a no-confidence motion supported by both the LDP and an angry SDP, Mr Hata stepped down after the budget and after just two months in office, in the hope of forming a majority coalition behind the scenes. It had been the shortest-lived Japanese government since 1945.

In the event, Mr Hata and Mr Ozawa failed to attract the SDP back to their camp. In a desperate final bid for power, they fielded as their leadership candidate Mr Toshiki Kaifu, a reform-minded former LDP prime minister.

The stratagem failed. Mr Kaifu lost a parliamentary vote to Mr Murayama, chairman of the SDP who agreed, in a flurry of last minute bargaining, to form a government with his old foe, the LDP. The wily Mr Ozawa's miscalculations consigned him – no doubt temporarily – to obscurity, just two years after he was poised to inherit the LDP's most powerful faction.

The LDP-SDP marriage is strange by any standards. It remains to be seen whether the LDP's leader, Mr Yohei Kono, is better at working with a divided and erratic Socialist party than was Mr Hata, or whether the alliance will break up like its predecessor. The desire to stay in power may be strong enough to suppress policy differences.

The past year's political power struggle has been greeted with polite bafflement by Japan's foreign partners. There is, however, a pattern to the chaotic political events of the past 12 months. Most political experts think that Japan is evolving from the one-party rule of the LDP era to a more or less evenly balanced system of two or three parties, capable of taking it in turns to govern.

The LDP has been weakened, with the first round of defections that provided the foundations for the Hosokawa coalition and with the latest defection by Mr Kaifu, who wants to form a new party. All this has created a fragmented opposition of small moderate parties, which have begun to coalesce, with the formation of Mr Ozawa's Kaishin. The SDP and the tiny Japan Communist Party form a third group.

The LDP's return to government might look like a step back in Japan's search for a new political system. Against that, there have been several steps forward in the past year.

Firstly, there is the passage of the new laws on political reform. This makes change irreversible so long as this unpredictable new government does not have second thoughts about completing the new electoral boundaries.

Secondly, there is the creation, for the first time since the war, of a moderate opposition capable of running a government. Finally, Japan has seen the beginnings of an open television and newspaper debate on policies, previously the domain of smoke-filled backrooms.

Strange marriage: socialist premier Tomiichi Murayama (c) clinches a three-way coalition deal with Liberal Democrats party president Yohei Kono (l) and New Party Sakigake leader Masayoshi Takemura (Reuter)

KEY FACTS

Area .... 377,750 sq km
Population .... 124.5 million
Head of state .... Emperor Akihito
Currency .... Yen (Y)
Average exchange rate .... 1993 $1=Y 111.2
.... 1994 $1=Y 98.57 (8/7/94)

ECONOMY

	1993	1994 [1]
Total GDP, constant (Y '000bn)	421.2	423.7
Real GDP growth (%)	0.1	0.6
Components of GDP (%)		
Private consumption	57.7	n/a
Government consumption	9.6	n/a
Private housing	5.1	n/e
Private plant and equipment	16.4	n/a
Public investment	8.6	n/a
Change in stocks	0.2	n/a
Exports	9.4	n/a
Imports	-7.1	n/a
Annual average % growth in		
Consumer prices (%)	1.3	0.6
Industrial production (%)	-4.5	-1.5
Employment (%)	0.2	0.3
Unemployment rate (%)	2.5	2.9
Unit labour costs (%)	2.2	0.6
Government bond yield (%) [2]	3.18	4.24 [3]
Total reserves minus gold ($bn)	98.5	n/a
Money growth (M2+CD) [4]	2.2	2.7 [5]
FT-A index (% change) [2]	2.91	17.8 [6]
General govt financial bal. [7]	0.3	-1.9
Current account ($bn)	131.4	105.8
Merchandise Exports ($bn)	351.3	338.0
Merchandise Imports ($bn)	209.9	225.5
Trade balance ($bn)	141.4	112.5
Main trading partners (%) [8]	Exports	Imports
US	29.2	22.9
Hong Kong	6.3	n/a
Taiwan	6.1	4.0
South Korea	5.3	4.9
Germany	5.0	4.1
China	4.6	8.5

(1) 1994 forecast unless otherwise indicated. (2) End period. (3) July 1994. (4) M2+Certificates of deposit. (5) April 1994. (6) Dec 1993-July 1994. (7) % of GDP. (8) Share of world trade 1993

Sources: IFS, EIU, OECD, Datastream

Year of change

JUNE 18, 1993. Liberal Democratic Party government loses no-confidence motion initiated by Social Democratic Party and backed by LDP rebels.

- JULY 18. LDP loses majority 18 general election.
- JULY 29. Mr Morihiro Hosokawa, head of the Japan New Party, and a crusader against anti-corruption, chosen as prime minister by seven opposition parties, including SDP. Mr Hosokawa promises to take political responsibility – meaning resigns or call snap elections – if promised political reforms are not enacted by year end.
- NOVEMBER 18. Four reform bills passed by Lower House and sent to Upper House, where they hit delays, due to fierce controversies over budget bills and foreign calls for end to ban on rice imports.
- DECEMBER. Against fierce opposition from LDP and SDP, Mr Hosokawa announces partial opening of rice market, part of deal to complete Uruguay Round of global trade negotiations. He wins 45-day extension of parliament to push through reforms.
- JANUARY 5, 1994. Upper House begins debate on political reform.
- JANUARY 20. Reform bills are passed by special Upper House reform panel, thanks to an LDP defector, and sent to full session.
- JANUARY 21. Full Upper House votes down reforms. Mr Hosokawa later has to compromise with LDP to get watered-down version passed.
- FEBRUARY 2. Mr Hosokawa shocks coalition partners by announcing plans to more than double sales tax to seven per cent, to finance proposed income tax cuts. Forced to withdraw tax plan five days later.
- FEBRUARY 11. Trade summit with U.S. President Bill Clinton ends in failure after Mr Hosokawa rejects U.S. demands to set numerical targets for opening np Japan markets.

MARCH. LDP blocks state budget due to take effect on April 1 in bid to force Hosokawa to clear doubts over a 1982 loan he allegedly used illictly for a political campaign.

- APRIL 1. Deadline for passage of 1994/95 budget missed, parliament grudgingly votes stopgap finance bill.
- APRIL 8. Hosokawa resigns to take responsibility for parliamentary deadlock over personal finances.
- APRIL 25. Mr Tsutomu Hata, head of centre-right Japan Renewal Party, elected prime minister with SDP belp. Hours later, SDP leaves the coalition in protest at efforts to marginalise it.
- APRIL 28. Mr Hata, leader of Japan's first minority government since 1948, forms cabinet.
- JUNE 23. With tacit backing of LDP and SDP, minority coalition finally sees long-delayed state budget voted into law. LDP immediately submits no-confidence motion.
- JUNE 25. Mr Hata resigns, after breakdown of talks with SDP, unable to agree on tax reform.
- JUNE 29. LDP agrees to back Mr Tomiichi Murayama, SDP chairman, as prime minister. Mr Murayama wins parliamentary vote against Mr Toshiki Kaifu, an LDP defector adopted as coalition candidate.

The property market has fared better than those of its neighbours: Page 3

FINANCIAL TIMES SURVEY

MONACO

Tuesday July 19 1994

One photograph hanging in the Monaco government offices shows the principality in 1865 as a clutter of houses perched on the rock around the palace. The picture beside it was taken in 1949 after the casino had ushered in a new era of affluence, and a final photograph depicts the modern Monaco where every scrap of land is crammed with high-rise apartments, hotels and offices.

The three photographs tell the story of Monaco's metamorphosis from the dusty old Mediterranean town of the mid-19th century to the leisure resort and fledgling financial centre of today. They also illustrate how Prince Rainier, who took the throne in 1946 as Europe's sole surviving absolute monarch, has clung on to his country against the odds and turned what was once a playboy's playground into a more broadly-based, if idiosyncratic economy.

His achievemeots have recently been put to the test by the economic recession and so far he has passed with flying colours. Monaco, like every other European country, has beeo affected by the downturn, but it has fared far better than most places, notably the nearby towns of Nice and Cannes. The level of employment in the principality fell by less than 3 per cent in 1993 and, at the end of March, only 700 people from a population of 30,000 were out of work.

"We have felt the effects of the recession, but it has been much milder in Monaco than in France or Italy," says Jean Pastorelli, government counsellor on finance. "The recession has also been shorter here. The level of activity has already picked up since the start of this year and many local companies, having laid people off last year, are now hiring again."

The key themes of Prince Rainier's reign have been to develop the local economy thereby providing long-term employment for the 5,000 or so surviving Monégasques and to nurture good relations with France, his powerful neighbour. When he took the throne Monaco's only assets were its climate, its picturesque position and its liberal fiscal system.

His principality had become, in the words of Somerset Maugham, a "sunny place for shady people" that risked falling victim to the sleazy side of the Côte d'Azur underworld.

Rainier, helped by Grace Kelly, the Hollywood movie star whom he married in 1956, spruced up Monaco's image and restored its lost lustre. He created a country which was scrupulously clean and virtually crime-free thanks to a large, well-trained police force. He also kitted out Monaco with every conceivable convenience including street signs, escalators, pedestrian subways and even doggy shelters where pampered pooches can shade themselves from the sun. The principality soon regained its old status as an upmarket holiday resort and became a popular haven for wealthy tax exiles.

Two faces of opulence: an aerial view of Port Hercule where some of the world's most luxurious yachts are moored (left); and a view of the famous Monte Carlo casino at night, where gamblers stake fortunes at the tables

An anachronism – but it works well

Prince Rainier's achievements have recently been put to the test by the economic recession, and so far he has passed with flying colours, writes Alice Rawsthorn, who is the author of this survey

Monaco still fulfils those roles today. There might not be quite as many rich tourists who are able, and willing, to check into its luxury hotels as there were in the 1950s. But Monaco has recognised reality by building up a business conference business and creating new facilities for the thousands of day-trippers flooding in from France and italy. The local tourist industry was affected by the recession last year but not as badly as other parts of the Côte d'Azur. The number of visitors fell by 15 per cent to 208,206 from 245,592 in 1992 and has been increasing so far this year.

The principality has also taken on a new lease of life as a tax haven. Only a few years ago it was in danger of being seen as a retirement home for elderly ex-pats of Prince Rainier's own vintage. It has since attracted a new generation of ex-pats in the globe-trotting supermodels Clandia Schiffer and Helena Christensen, who have joined long-time residents, such as Karl Lagerfeld, the fashion designer, and Helmut Newton, the photographer. The snpermodels have also provided a new source of publicity after the apparently endless paparazzi pictures of Rainier's children: Caroline, Albert and the wayward Stéphanie.

The influx of new resideots, coupled with the expansion of the tourist trade, has stimulated the property market.

Tha property business is no longer as frenzied as it was in the late 1980s, but it is still relatively robust thanks to the scarcity of land and the supportive presence of long-term investors such as Société des Bains de Mer, the state-cootrolled leisure company, and Pastor property group.

The price of residential property is only 10 per cent or 20 per ceot beneath its peak. Prices in Monte Carlo's prestigious Place du Casino are still comparable with the most expensive parts of Paris.

Meanwhile, the local banking industry has flourished since the 1987 abolition of Freoch exchange controls which enabled foreign investors to move money in and out of Monaco more easily – and discreetly. The number of banks in the principality has since doubled to just under 40 and the value of private client deposits has almost quadrupled to FFr80bn. The banks have recently experienced a slowdown in growth, but still expect an increase in deposits and assets for 1994. At the same time the introduction last year of tough new banking laws has been welcomed by bankers as evidence of Prince Rainier's determination to prevent Monaco from becoming a money laundering centre for French drug dealers and refugees from Italy's corruption crackdown.

The banking laws are also illustrative of Prince Rainier's diplomatic skills. He realises that his absolute monarchy and the continued existence of a country with a populatioo of 30,000 (only 5,000 of whom were actually born there) is an anachronism. He also knows that France could take away Monaco at any time as General de Gaulle demonstrated in 1962 when he sealed off the border with troops in protest at the number of Frenchmen using it as a tax haven.

Prince Rainier, nothing if oot a realist, immediately agreed to exclude the Freoch from Monaco's tax privileges. He has since stuck to the same conciliatory approach on the assumption that Fraoce will tolerate Mooaco's independence only for as long as it does not pose any problems. Hence his government's zeal at cracking down on money launderers.

Yet the success of Prince Rainier's economic policy has giveo him another defence in the political game against the French. The expansion of the local economy has not only enabled him to protect the indigeoous Monégasques by giving them cheap housing (in the Fontvieille area that has beeo reclaimed from the sea) and prefereotial employment rights, but also to geoerate jobs for French workers.

The priocipality oow employs just over 30,000 people only 7,000 of whom are Monégasques, either living io Monaco itself or in cheaper places across the French border. Some 3,000 Italians and 17,000 French also work there. The French governmeot would be loath to see those jobs disappear at a time of high unemploymeot if Monaco lost its indepeodence and its special tax status.

Prince Rainier continues to finance new economic development projects such as the FFr1.2bn new conference and cultural centre due to open in 1998 and his FFr1.4bn scheme to liberate more land by submerging the railway statioo. The governmeot is also working on turn-of-the-century land creation projects such as the construction of a oew jetty beside the present harbour and the creation of Fontvieille II on another sea reclamation site.

"The impressioo one gets is that Rainier is a very clever businessman in the tradition of *grands patrons*, the great French bosses," says one foreign banker. "He may be an absolute monarch, but he is far too astute to use his power bluntly. There are oever any surprises but you always know that a firm hand is in cootrol. Monaco might be an anachronism – but it works."


The number of banks operating in Monaco has doubled to 40 since 1987

Reputation as a bolt hole persists

Crackdown on banks welcomed

There is a story in Monégasque banking circles that an Italian recently appeared in one of the local banks bearing a cardboard box containing L7bn in used notes which, he told the manager, was the profit from the sale of his business back in Italy.

Such stories crop up from time to time in Monaco, although not as often as they did in the past. The principality still has the reputation of being a secure and discreet bolt hole for large quantities of cash. But the introduction last year of tough new laws to crack down on money laundering and to compel local banks to exercise tighter scrutiny over the source of their clients' funds, gave a very clear indication of the way the government plans to encourage the banking industry to develop.

"Monaco has established itself as a financial centre in a very short time," says Michel de Robillard, chairman of Crédit Foncier de Monaco, the subsidiary of Suez, the French financial group, which is one of the biggest banks in the principality. "The government realises that if Monaco is to fulfil its full potential in the financial sphere, the banking industry must be strong *and* clean."

There has always been a small banking business in Monaco but it was only after 1987, when the French government abolished exchange controls thereby enabling foreign clients to move money quickly and discreetly in and out of the country, that the local financial industry really took off.

The number of banks operating in the principality has since doubled to around 40. The old independent Monégasque banks have all disappeared. The banking market is dominated by the big French financial groups such as Crédit Lyonnais, Banque Nationale de Paris, Société Générale, Paribas and Snez. Yet the other leading names in European banking are also represented.

Most Monaco banks concentrate on providing private banking services for the wealthy private clients – or "high net worth individuals", as they prefer to call them – who want to take advantage of the country's tax advantages. Any foreigner, apart from the French, does not have to pay tax on money depositsd or invested in the principality.

The private banking sector has expanded dramatically since 1987 with the total value of client deposits almost quadrupling from around FFr22bn ($3.95bn) eight years ago to an estimated FFr80bn today. The deposit market grew by between 20 and 25 per cent a year during the late 1980s and has continued to expand (albeit at a slower rate) since the start of the economic recession.

"It's true to say that life is more difficult in private banking than it was at the height of the boom three or four years ago," says Martin Peake, head of the Monégasque branch of Lloyds, the UK banking group. "But we've had a far easier time than private bankers in other places. The market here in Monaco is still growing. It's just growing more slowly."

The consensus among local financiers is that the value of private client deposits rose by between 5 per cent and 10 per cent last year and has increased by about 5 per cent in the opening months of this year. However, these figures conceal a trend for clients to counter lower interest rates by switching their money from deposits into more efficient vehicles such as mutual or managed funds. As a result the local banks benefited last year from an estimated 20 per cent increase in the value of the assets placed in Monaco.

This expansioo helped to counter the effects of the economic recession, which has posed problems for the dozen or so local banks that are still involved with commercial banking activities such as loans to local companies and property finance. Monaco has not been as badly affected by the economic downturn as nearby Nice or Cannes. However, some sectors of the economy, notably the tourist industry and property development, have beeo depressed with a knock-on effect on their banks.

The continued growth in private banking has also persuaded some new international banks to sustain the financial sector's expansion by setting up subsidiaries in Monaco. The latest arrivals include the ABN of the Netherlands.

Local financiers suspect that one of the main reasons for the buoyancy of the banking market is psychological. "Monaco is an attractive place, but it's also clean and peaceful," says Mr de Robillard of Crédit Foncier de Monaco. "There's virtually no crime, which means that our clieots can feel calm and comfortable when they come here. All that is very appealing at a time of uncertainty."

He is also convinced that the banking industry has benefited from becoming more professional in recent years due to the restructuring efforts of the banks themselves and the expansion in related areas such as the arrival of international legal firms.

The new banking legislation has been welcomed as part of this process particularly by those who remember the collapse of Banque Industrielle de Monaco in 1989. The bank was closed by the French banking authorities after an official investigation discovered that it had built a substantial business by accepting "cat's paw" bearer deposit notes in Monégasque names for tax-evading French residents.

"None of us wants to see a repetition of the BIM debacle," says one local banker. "It would be bad for Monaco's image and bad for business. Nor would it be in anyone's interest for Monaco to become a haveo for money launderers."

Monaco has always been subject to French banking regulations but most local financiers believe that the new laws give them a necessary layer of extra protection. "This legislation woo't actually alter the way that we operate," says Mr Peake of Lloyds Bank. "But it should help us by sending out the right signals. It might make our international clients feel more confident about investing their money here."

Société des Bains de Mer is a Monégasque institution

Catering for leisure seekers


Dining in style: super chef Alain Ducasse has won three Michelin stars for the Louis XV restaurant

You could stay at the sumptuous Hôtel de Paris and treat yourself to a three-star meal at the Louis XV restaurant. You might risk some chips at the Monte Carlo casino and stop for a cocktail on the terrace of the Café de Paris before dancing the rest of the night away at Le Jimmy'z night club.

If you did all this you could spend a conple of days in Monaco – and a very pleasant few days at that – without ever leaving the properties owned by the Société des Bains de Mer (SBM), the quaintly named leisure company which is by far the biggest single business in the principality.

SBM is more than a business, it is a Monégasque institution. It is not only the largest commercial concern in Monaco (with sales of FFr1.75bn in its last audited financial year to March 30 1993) but is also the largest employer with a workforce of 2,600 in a country with a population of 30,000.

Although SBM is a publicly-quoted company with shares listed on the Paris stock exchange, its ownerahip is dominated by the state. The Monaco government has owned 70 per cent of the group since 1966 when it bought all the shares amassed by Aristotle Onassis, the Greek shipping magnate who was one of the most profligate players at the Monte Carlo casino. Onassis had for years been buying up small stakes in SBM until eventually he had control and Prince Rainier decided the government should buy him out.

Yet the relationship between SBM and the Monégasque state goes back far further than the mid-1960s. The company traces its roots to 1863 when Prince Charles III gave a 50-year licence to operate a casino in Moote Carlo to François Blanc, who had turned the Bavarian town of Bad Homburg into a glamorous gambling centre.

François Blanc was charged with creating a casino and an hotel in Monte Carlo, which was then a delapidated olive grove oo the hill opposite the royal palace. His company was christened, Société Anonyme des Bains de Mer et du Cercle des Etrangers, or the sea bathing society and circle of strangers, as a euphemism to throw the French authorities off the scent in case they objected to Monaco's newfound zest for gambling.

SBM has continued tha practice of combining hotel ownership with casino operation. Its interests, which occupy a twelfth of the land in Monaco, include the Hermitage, Mirabeau and Monte Carlo Beach hotels, as well as the Hôtel de Paris, together with the Opéra, Sun Casino and the sporting, golf and country clubs.

Raoul Biancheri, the present chairman, insists that the SBM will not deviate from its traditional role. "Diversification isn't anything that we know about or are interested in," he says. "Our expertise lies in owning and operating casinos and hotels here in Monaco. That's what we're good at."

The company's cautious attitude towards expansion is possibly reinforced by the memory of its unsuccessful investment in Baudouin, a Paris stockbroker that collapsed in the late 1980s. Yet Mr Biancheri also rules out the less dramatic option of investing in hotels and casinos outside the principality.

"We're prohibited by our company statutes from becoming involved with gambling outside Monaco," he says. "It may be that a similar restriction applies to hotels. I don't know. But we're not a hotel and leisure company in the conventional sense. We really do have a very particular specialisation."

SBM has instead been investing heavily in its existing interests. It started to do so after a painful period in the mid-1980s when its profits fell, reflecting heavy losses at the casinos and low occupancy rates at the hotels which were then regarded as loss leaders for its gambling interests.

The group embarked on an upgrading programme, beginning by luring Alain Ducasse, one of France's young superstar chefs, to the Hôtel de Paris where he has since won three Michelin stars for the Louis XV restaurant.

It has just completed a three-year investment scheme that included refurbishing the Hôtel de Paris and the Hermitage, rebuilding most of the Monte-Carlo Beach Hotel and opening a new gaming room on the ground floor of the Café de Paris.

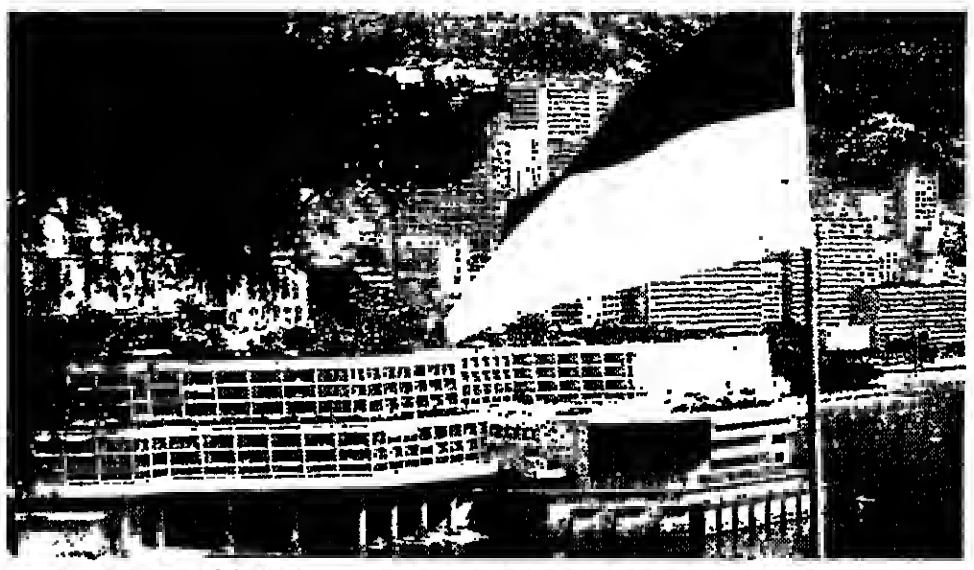
SBM is now building a FFr100m new thalassotherapy centre, due to open next June. It is also considering plans for a brand new luxury hotel on the Larvotto peninsula, which would have 300 rooms and, possibly, a small casino in a project costing between FFr600m and FFr700m.

Despite these investments SBM has not emerged unscathed from the economic recession of the past few years, although Mr Biancheri is convinced that the group would have fared even worse without them. SBM reported a fall in net profits to FFr171m for the year to March 30 from FFr229m in the previous year. Its audited accounts for the 1993/94 financial year are not yet available. However, Mr Biancheri confirmed that hotel occupancy fell slightly during the year as did gambling receipts.

One consolation is that the occupancy rate at the SBM hotels is still higher than those of other Monaco establishments at around 54 per cent against 48 per cent. Similarly, its occupancy levels have not fallen as far during the recession, which would appear to endorse its strategy of upgrading its interests to stay at the top of the market.

Moreover, Mr Biancheri says that business has picked up since the start of 1994 as the economic strains have eased.

"There's definitely been an improvement in trading since the start of this year," he says. "Hopefully we'll sooo return to our normal level of activity. We also ought to reap the rewards of our recent investments. We've sewn the seeds. Let's see how they grow."


Conference centre: the C.C.A.M. one of the venues for business meetings in Monaco

Chilly economic climate and French franc's rise hits tourism

Talking business is a big industry

Only a few days ago a crowd of Flintstone fans crowded into the open-air cinema at Monte Carlo to watch Fred, Wilma, Barney and their fellow characters caper around in the movie version of The Flintstones; the smash hit at the US box office this summer.

The Flintstones – La Famille Pierrafeu, as they are called in France – has not yet opened for general release in Europe. It was screened as an *al fresco* preview in Monaco this weekend as part of a summer season of English language films at the open-air cinema. The special showing of The Flintstones is only one of the attractions with which the Monégasques hope to persuade more people to visit the principality at a time when the European tourist industry is emerging from the recession.

Monaco remained relatively resilient to the downturn in tourism until autumn 1992, when the combination of the chilly economic climate and the French franc's rise after the European currency crisis, triggered a steep decline in the number of visitors.

Last year the full effect of the downturn became apparent. The oumber of foreign tourists, which had been fairly stable at about 240,000 a year during the late 1980s and early 1990s, fell sharply. Monaco Government Tourism and Convention Office figures show a drop of just over 15 per cent to 208,206 in 1993, from 245,592 in 1992.

One difficulty was an acceleration of the fall in the number of French visitors, which had been in decline since the late 1980s. The French recession deepened last year, with a devastating effect on foreign travel and leisure expenditure. As a result the number of French visitors to Monaco fell to 36,339 in 1993 from 41,352 in 1992. Tourism from the US, UK and Germany was also down during the year.

Yet the chief problem for the Monégasques was a dramatic downturn in the influx of visitors from neighbouring Italy, which had emerged as its single biggest source of tourism in the 1980s when it ousted France from pole position. The number of Italian visitors rose each year in succession from 43,169 in 1984 to peak at 86,097 in 1992. It plummeted to 67,727 in 1993.

"It's easy to see why Italian tourism was down so significantly," says Raoul Biancheri, chairman of Société des Bains de Mer (SBM), the largest leisure group in the principality, which owns the Monte Carlo Casino together with the Hôtel Hermitage and Hôtel de Paris. "There has been a great deal of political instability in Italy for the past two years. Then there was the anti-corruption drive and also the economic downturn culminating in the devaluation of the lire."

Yet the overall impact of the decline in the number of visitors has not been quite so damaging to the Monégasque economy (which depends on tourism for about a quarter of its gross domestic product) as the bald statistics suggest.

The most depressed area of the tourist industry has been the least lucrative – the day trippers who pour across the borders from France and Italy. These casual visitors provide a useful source of revenue for the principality's cafés, souvenir shops, slot machines and tourist attractions. But their absence has little impact on the more profitable part of the tourist business – the luxury hotels, Michelin-starred restaurants, designer fashion shops and exclusive gaming rooms.

The official figures do not identify the total number of day trippers but they show that while the total number of visitors declined by 15 per cent to 208,206 from 245,592, the number of overnight stays fell at the lower rate of less than 13 per cent to 601,111 from 698,047.

Similarly, although the overall rate of hotel occupancy was 7.2 per cent lower at 48.3 per cent for 1993 against 55.5 per cent during the previous year, the upmarket SBM hotels maintained higher occupancy rates of just over 54 per cent, thanks to the patronage of their wealthy private clients and corporate customers.

Ooe of the main reasons for the comparative strength of the upper end of the tourism industry is Monaco's success at establishing itself as a business conference centre. The principality only started to develop its conference activities in the 1970s. It opened the Centre des Congrès, its first important venue, in the late 1970s, followed later by the Centre de Rencontres Internationales.

Monaco now hosts large business conferences for the insurance and television industries, as well as for individual companies which use it as a location for internal meetings and promotional events (such as Elizabeth Arden's elaborate launch this spring of the new Karl Lagerfeld perfume, Sun Moon and Stars). The conference industry now accounts for almost a third of all Monaco's foreign visitors, against under one tenth in the early 1970s.

The focus of future investment is in conferences. The main project in the principality is the construction of the huge new Centre Culturel et d'Expositions, which will provide more conference and exhibition space, thereby enabling Monaco to host more than one big event at a time.

The opening of the new centre, originally scheduled for the end of this year but delayed due to construction problems until 1998, might also catalyse a new spurt of hotel construction.

The hotel sector has been relatively quiet since the openings four years ago of the Abela and the Metropole. There have been no important new hotels since then, although SBM does have one possible project: it is considering building a new 300-room luxury hotel on the Larvotto peninsula.

In the meantime the Monégasques are anxiously waiting to see whether the local tourist industry will fare better in 1994 than in 1993. So far the signs are encouraging. The number of visitors during the first few months of the year was healthily higher than in the same period of 1993. So far this summer, thanks to The Flintstones and other attractions, it seems likely to rise again.

The property market has fared better than those of its neighbours

Golden triangle's glitter dims

There is a villa for sale in Monaco, the Villa Fauvette, which boasts no fewer than six bedrooms, five bathrooms, balconies outside, marble floors inside, gardens and terraces all around with a sweet little summer house perched on its roof. The price is FFr15m, or just under $2.7m.

Villa Fauvette is a very special property. It is one of the handful of *belle epoque* town-houses, or *hôtels particuliers* built in the late 19th century to house Monaco's wealthy residents and visitors, to have survived the principality's post-war building boom.

If a suitable buyer appears Villa Fauvette will be handed over intact. But the owners have another option. They could always sell the property to a developer who, thanks to the scarcity of land in Monaco, would probably be prepared to pay almost as much as the FFr15m purchase price. Villa Fauvette would then become the latest in the long line of *belle epoque* relics to be demolished to make way for yet another new apartment block.

Anyone glancing at the dozens of "For Sale" and "To Let" signs festooned across the facades of Monaco's apartments, shops and offices could

The seeds of the property market were sewn in the early 1970s

be forgiven for thinking that there was no shortage of property already on the market. The local property industry has been affected by the downturn that has depressed the European market in recent years. Yet the idiosyncratic nature of the Monégasque market – dominated by a small number of powerful property owners and a high proportion of rich, relatively recession-proof private clients – has enabled it to withstand the recession rather better than its counterparts in other countries, notably in neighbouring France and Italy.

The dearth of land, where sites for new development are so scarce that one of the biggest projects is the construction of a new underground railway station so that apartments can be built on top, has always ensured that there is strong demand for unusual properties on prime sites such as Villa Fauvette.

The seeds of the Monégasque property market were sewn in the early 1970s by Prince Rainier and Gildo Pastor, the multimillionaire developer. They presided over a building boom that filled most of the principality's available sites together with reclaimed land in the 1970s and 1980s.

The price of Monégasque property escalated sharply with the cost of new apartments rising from around FFr3,000 a square metre in 1971, according to industry estimates, to FFr10,000 in 1980 and to FFr70,000 at the market's peak in 1990. Prices in the golden triangle of Monte Carlo (in the area around the Casino and the Hôtel de Paris) rose even higher to anything between FFr100,000 and FFr125,000 a square metre, which made them roughly comparable to the most expensive parts of Paris.

Prices have since weakened. "The Monaco property market has certainly been affected by the economic recession," says Yves Max, chief executive of Crédit Foncier de Monaco, one of the biggest banks in the principality with interests in the property sector. "But the downturn has not lasted as long, nor has it been as strong as in other parts of the Côte d'Azur such as Nice or Cannes."

Mr Max estimates that the average price of residential property has fallen by "between 10 and 20 per cent" since its 1990 peak. Commercial prices have probably fallen further, but that represents a relatively small part of the Monégasque market. The speculation of the 1980s, whereby apartments would be sold from the plans and resold several times before they had actually been built, has fizzled out. Yet the upper end of the residential sector has remained robust, particularly in the most expensive areas such as the golden triangle where prices have barely changed despite the recession.

One of the main reasons for the market's comparative stability is the presence of a handful of solid, local investors notably the Pastor group (now run by Gildo Pastor's sons, Michel and Victor) and Société des Bains de Mer (SBM), the state-controlled hotel and casino operator. These companies have a long-term commitment to Monaco. It is scarcely in their interest to depress the market by dumping properties through panic selling. Further, they are exactly the type of large, well-established businesses that can afford a long-term approach to investment.

Similarly Monaco's wealthy residents have been spared the worst of the recession. Many

The upper end of the residential sector has remained robust

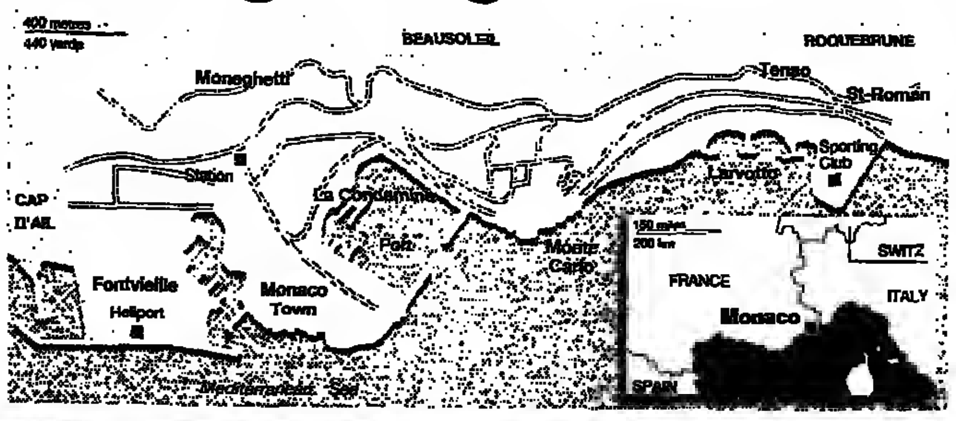
are affluent enough to have been able to hold on to their old properties, rather than risk selling them at low prices. Finally, the level of construction activity has slowed down, partly in response to the recession and partly because of the land shortage.

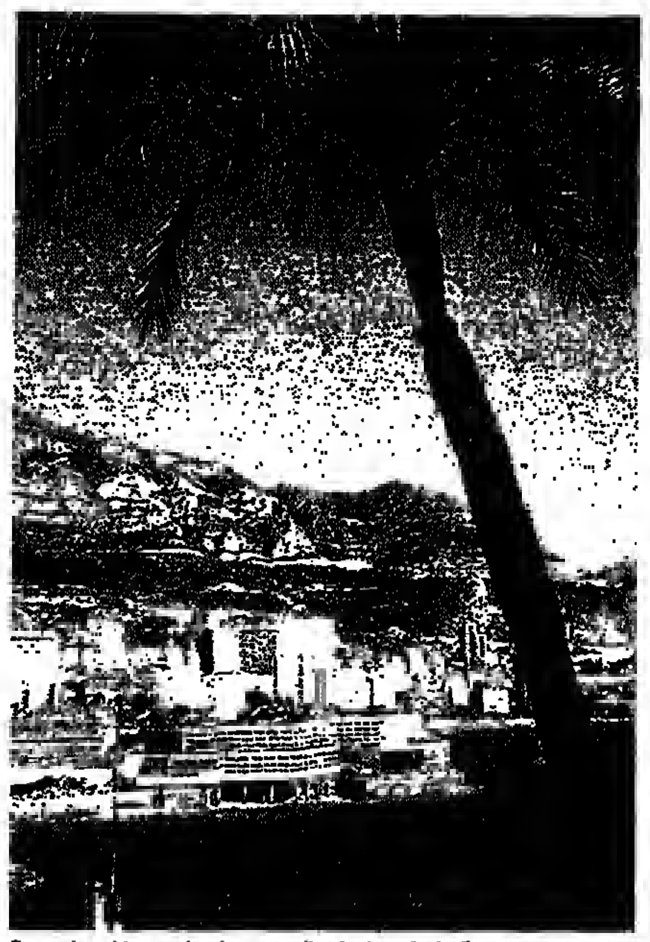
As a result the market has already responded to the easing of recessionary pressures in Europe. Local estate agents say that the price of new residential property has returned to around FFr60,000 a square metre, just below its peak in the late 1980s.

"We've definitely seen an increase in demand for residential property in Monaco," says Betty Bloom, director of the SPA Property Agency, which specialises in the South of France and is the agent for Villa Fauvette. "There's tremendous interest from Italians, but also from Germans, the British and even from a few very rich Russians who have come on to the market."

The recent rise in Monégasque property prices reflects a general improvement across the Riviera, but the idiosyncrasies of the local market coupled with the particular attractions of the principality have ensured that the recovery was faster there.

"No-one ever mentions tax, but it's obviously a major factor in drawing people to Monaco," says Ms Bloom. "It's also a safe, clean and politically stable place to live. Monaco is more popular than other Riviera towns, even though you could buy a lovely property in a pretty part of Antibes for half the price you'd pay in Monaco."





Concrete evidence: development sites in the principality are scarce

Driving in and around Monaco is a treat in itself

Mediterranean rendezvous

One of the nicest things about Monaco is its location: clinging to a cliff on the picturesque Mediterranean with the Italian coast to the east and the French riviera to the west.

The idea of being able to drive over the border for dinner in a foreign country is always appealing. Nice, Cannes and Genoa are all within easy reach. But if you tire of the glitz and gloss of Monte Carlo, there is also the option of visiting some of the smaller towns and villages along the Côte d'Azur and inland in rural Provence.

Driving in and around Monaco is a treat in itself thanks to the spectacular views offered from the the *corniches*, or coastal roads, which run through the principality from Nice to Menton. There are three *corniches* – high, medium and low depending on the height at which they perch on the cliffsides. All three are familiar settings from car commercials and Côte d'Azur movie car chases.

Roquebrune is the first place you come to when leaving Monaco on the western *corniche*. It is a 15th century village built around an 11th century castle complete with a mock medieval tower added by an eccentric English owner in the 1920s. The village has been colonised by souvenir shops and is now something of a tourist trap, although the charm of its narrow alleys and stairways is still apparent when the shops close down at night.

The coastline to the west of Roquebrune is accessible only by foot and offers a stunning shoreline walk past the white rocks and pine trees of Cap Martin. The path is called Le Corbusier after the famous modernist architect who drowned there in the mid-1960s while staying at a house owned by the Anglo-Irish designer, Eileen Gray.

The next stop after Cap Martin is Menton, the sunny seaside town nestling in mountains and lemon groves which is, in many ways, a more subdued version of Monaco. Menton and Roquebrune both belonged to Monaco until the mid-19th century when they

Nice, Cannes and Genoa are all within easy reach of Monte Carlo

declared their independence. The then Prince of Monaco was stoned on the streets when he came to reclaim them and later sold them off to France for FFr4m.

Menton, like Monaco, has an Italianate *vieille ville*, or old town, with candy-coloured houses and pretty little chapels. It also sports one of the most sought-after *Salle des Mariages*, or register offices, in France (tel:9357 8787) decorated by Jean Cocteau, the surrealist artist. Cocteau not only filled the walls with friezes of love stories – from a Saracen wedding party, to Orpheus and Eurydice – but even carpeted the floor with a mock-panther skin.

Cocteau also created his own museum for Menton, the Musée Jean Cocteau (tel:9357 7230), which lies between the *vieille ville* and the old port. It houses a fine collection of his drawings, paintings, writing, stage and film sets.

The *corniches* to the east of Monaco are also well worth exploring. The hilltop village of Eze looks wonderful from a distance, with its medieval houses and churches winding around the natural fortress of its hill. But on closer inspection it is even kitscher than Roquebrune with a clutter of souvenir shops and overpriced antique dealers.

Beaulieu, the next town along the coast, has the same sleepy air as Menton. Its main attractions are the recently renovated Art Deco casino and the idiosyncratic Villa Kérylos, a replica of a classical Greek villa built in the early years of this century for Théodore Reinach, an archaeologist who lived there for 20 years in the same style and dress as an ancient Athenian.

The other coastline folly is Fondation Ephrussi de Rothschild (tel:9301 3399) which perches high above the *nouveau riche* holiday homes of Cap Ferrat to house the collections of art and furniture hoarded by the eponymous Baroness de Rothschild. The baroness, like Théodore Reinach, had a penchant for ancient Greece. Her pastel pink villa is cluttered with classical columns, as well as vestiges of almost every period from Tiepolo frescoes, to Louis XIV furniture and a tiny lover's room tucked away on the ground floor.

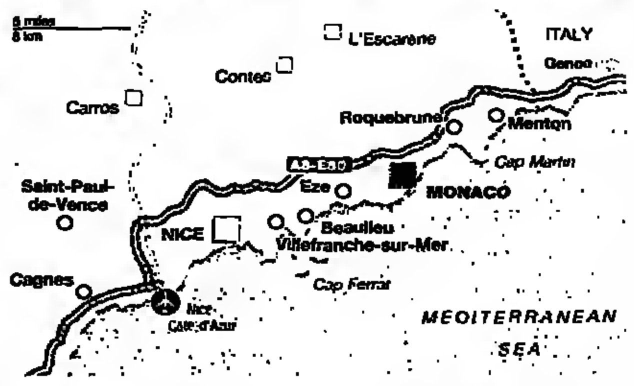
Jean Cocteau crops up again in Villefranche-sur-Mer, yet another picturesque fishing village to have fallen victim to souvenir shops and tourist traps. But Villefranche does boast the Chapelle Saint-Pierre, a tiny 14th century seafront chapel where Cocteau covered the interior walls with abstract fantasies of Saint Peter frolicking with the Camargue gypsies.

Nice itself is filled with museums and restaurants. The nearby town of Cagnes is now a jumble of modern villas but was once the home of the painter, Pierre-Auguste Renoir. His house has been turned into a museum, the Musée Renoir (tel:9320 6107), which contains his old studio as well as some of the paintings he did there and pieces by friends, such as Bonnard and Dufy.

Then there is Saint-Paul-de-Vence, another pretty Provençal hill village transmogrified into a tourist trap, where the Fondation Maeght (tel:9332 8163) offers one of the best collections of modern art in southern France with works by Giacometti, Arp and Miro. The foundation, which was created by a family of Paris art dealers, also stages temporary shows the latest of which is a Georges Braque exhibition that runs until the autumn.

The last port of call before a longish drive back to Monaco could be La Colombe d'Or (tel:9332 8002), the Saint-Paul restaurant run by the Roux family since the 1920s where local artists paid for their meals with their work. Luckily for the Roux the "locals" included Picasso, Braque, Chagall and Miro not to mention Fernand Léger, whose frieze decks the restaurant terrace, and Alexander Calder, who made a mobile to bob above the swimming pool.

There are spectacular views from the corniches in and around Monaco



A very special event: the Givenchy auction was a prime example of the best type of Monégasque sale

The principality has become an international landmark for art sales

Newcomer finds its niche

Christie's, the celebrated London auction house, always knew that last winter's sale in Monte Carlo of the contents of a Parisian apartment owned by Hubert de Givenchy, the French fashion designer, would be a rather special event: but it did not realise quite how special until after the auction was over.

Givenchy had shown the same fastidious taste in furnishing his apartment as in creating his *haute couture*. His rue de Grenelle apartment had contained some exquisite examples of French painting and furnishings, including the famous Hanover chandelier, a stunning piece in sterling silver.

Christie's had calculated that the sale of his collection should raise between FFr100m and FFr110m. Yet the auction itself achieved a total of FFr155m – which included a successful bid of FFr18m for the Hanover chandelier alone.

For Humphrey Butler, head of Christie's in France, the Givenchy auction was a prime example of the very best type of Monégasque sale. "There's a glamour associated with Monte Carlo which is absolutely ideal for the auction of a very special private collection such as Hubert de Givenchy's," he says. "It's the sort of collection that probably sells better in Monaco than anywhere else."

Monte Carlo is still something of a newcomer to the art market, at least compared to the old-established centres such as London, Geneva and New York. The first big sale in the principality was staged in 1975 by Sotheby's, chief competitor of Christie's, when it auctioned off the Dédé de Rothschild collection. That auction and subsequent sales were so successful that Monte Carlo has since become a landmark on the international art dealing scene.

The merits of Monaco as an auction centre are easy to see. The location, only a 15 minute helicopter ride away from Nice's busy international airport, makes it easy for international dealers to fly into the principality for special events. Sotheby's and Christie's even ensure that they hold their six monthly sales fairly close together in June and December to maximise attendance by foreign dealers.

Monte Carlo also offers the added *frisson* of a sprinkling of self-indulgent local residents, and people driving over the borders from France and Italy.

Yet the main reason for Monaco's metamorphosis into an auction centre is the idiosyncratic nature of the French art market, which is so tightly restricted by anachronistic legislation that it is almost impossible for leading international auctioneers such as Sotheby's and Christie's to hold important sales in France.

France is the home of some of the world's finest art collections. French painting and antique furniture is highly sought after by wealthy collectors in other countries, notably in the US and Japan. Yet for decades the market has been hidebound by stiff export restrictions which make it very difficult for Sotheby's, Christie's or their international rivals to transport works out of France to auction them in London, New York, Tokyo or Geneva.

The French government is empowered to stop any piece from leaving the country for foreign auction by buying it at the minimum reserve price – usually much lower than the "hammer" price at which the auctioneer will actually sell it. (If the piece is sold in France, the government must buy it at the hammer price.)

However, the controls over the French market are so tight – the only people allowed to practise as auctioneers are the small band of *commissaires priseurs*, who are licensed by the justice ministry and can only apply for a licence when an existing *commissaire* relinquishes one – that Sotheby's and Christie's cannot operate in France. At the same time, the archaic nature of the *commissaire* system means that the auction market is highly fragmented and that individual auctioneers do not have the resources to stage and market international sales on the same scale as Sotheby's or Christie's.

This state of affairs continued until 1975, when Peter Wilson, then chairman of Sotheby's in France, decided to exploit a loophole whereby works could be auctioned in Monaco free from the usual restrictions on foreign sales. In other words, the French government is obliged to pay the full hammer price, rather than the minimum reserve, if it seeks to stop French works leaving the principality.

Monte Carlo has since become renowned for its sales of old master paintings, antique French furniture and for other Gallic decorative specialities such as Art Deco and Art Nouveau. It has also hosted a series of high profile sales, including Sotheby's auction of the the Florence Gould and Claud Cartier collections, the Christie's sales of Sir Charles Clore's furniture and its auction last month of the cootents of the Cap d'Antibes house owned by Margaret Biddle, the wealthy American who was a leader of the Riviera social scene in the 1940s.

The nature of the Monaco market means that it has been relatively robust during the recession of the late 1980s and early 1990s. The only area of the market to have suffered is classic cars, which became a Monégasque speciality in the 1980s (thanks to the principality's motor racing tradition) but fizzled out in the economically depressed early 1990s.

Christie's and Sotheby's achieved well over their original estimates in last month's Monte Carlo art auctions. The prize of the Sotheby's sale – a pair of 18th century black lacquer corner cabinets by Bernard Van Risamburgh – was sold for FFr5.45m, against an estimate of FFr3m.

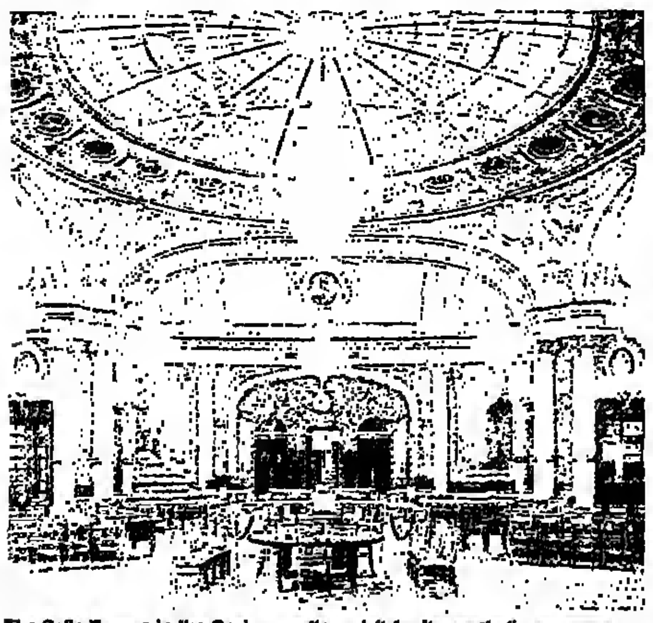
The biggest threat to the Monégasque auction scene is not the economic environment, but the forthcoming reforms of the French art market. In theory, the French should have liberalised their arcane auctioneering system with the onset of the single European market at the end of 1992. But in practice, although proposals for change have been tabled, the system has remained intact.

Yet even the most conservative *commissaires* accept that change is inevitable. Jacques Toubon, the centre-right arts minister, has already put forward a concrete plan for reform. "The inflexibility of the art market will soon be no more than a bad memory," began a recent article in La Tribune Desfossés, the French financial daily.

Liberalisation of the French market is almost certain to prompt the international houses to switch some of their Monaco auctions to Paris. Sotheby's and Christie's are already planning to do so. At the same time the French *commissaires* have developed plans to band together in order to compete more effectively against the London and New York houses.

Monte Carlo offers the added frisson of a sprinkling of self-indulgent local residents

Yet Christie's Humphrey Butler is still convinced that there will be a role for Monaco on the auctioneering scene. "I doubt very much that as soon as the Paris market opens, we'll move everything there and close down in Monaco," he says. "Monte Carlo serves a very particular purpose in the art market. We may well have decided to hold a special sale like the Givenchy there even if Paris was open to us. After all, we're all susceptible to glamour."


The Salle Europe in the Casino merits a visit for its aesthetic excesses

Visitor's guide to the principality

Like nowhere else on earth

Monaco is really little more than a smallish seaside city. Prince Rainier rules over a country that stretches across three kilometres of rugged Mediterranean cliff but is still one of the most popular destinations on the Côte d'Azur.

The principality is divided into four areas. Monaco Ville, the original heart of Monaco, is the political centre as the home of the *vielle ville*, the old town, and the Grimaldis' candy-coloured palace. Monte Carlo is much younger. It was a scrappy olive and lemon grove until the mid-19th century when Prince Charles III, one of Prince Rainier's more imaginative ancestors, built the famous casino and luxury hotels there.

Most of Monaco's foreign residents live in the jungle of modern apartment blocks flung up in La Condamine, the flat area lying between the more picturesque hills of Monte Carlo and Monaco Ville. The Monégasques themselves occupy the cheaper housing that has been built in Fontvieille, the strip of land to the south of Monaco Ville which was reclaimed from the sea in the 1970s and now houses a small industrial zone.

Yet to most people Monaco is synonymous with the *belle epoque* glitz of Monte Carlo. Nothing sums it up better than the Casino (tel: 9216 2121), an extraordinary edifice designed by Charles Garnier, architect of the Paris-Opéra. The Casino merits a visit for its aesthetic excesses – from the Bohemian crystal chandeliers in the Salle Europe which weigh more than 150 kilos, to the scantily clad women in the Galelli fresco on the ceiling of the smoking room whose eyes are said to follow the visitor around the room – even if you do not plan to risk frittering away your francs on the roulette wheels or slot machines.

No superstitious gambler should go into the Casino without first wishing themselves luck by stroking the knee of the bronze horse bearing Louis XIV in the statue outside the Hôtel de Paris (tel: 9216 3000). The hotel is almost as elaborate as the Casino with an extraordinary bar where Monaco's Chanel-clad residents knock back cocktails during afternoon piano sessions. It is also the home of the Louis XV (tel: 9216 3004), one of the few restaurants on the Côte d'Azur to boast three Michelin stars thanks to the talent of Alain Ducasse, its young chef. Donald Trump was so impressed with Ducasse's culinary skills that he once flew him over to Manhattan to cook a family meal.

Anyone whose budget does not quite run to a meal at the Louis XV – let alone to Concorde tickets for the chef – can dabble in the Trump lifestyle by window shopping at Chanel, Valentino, Cartier, Van Cleef & Arpels or any of the other expensive shops around Place du Casino and along Boulevard des Moulins. They can also stroll around the Casino gardens to gawp at the stunning sea views or at the work of César, the French sculptor who is the subject of the latest summer exhibition.

There are more gardens to see in Monaco Ville, where the cliff tops have been covered with Aleppo pines, agaves, and aloes to offer spectacular views across the Mediterranean cliffs. The narrow streets of the *vieille ville* still offer an occasional glimpse of the sleepy charm of medieval Monaco, but most of the old town is a commercialised clutter of souvenir shops selling Prince Rainier mugs and Casino tea-towels.

The Grimaldis' Palace (tel: 9325 1831) looks like a souvenir in itself with its pastel pink walls and comic book battlements. The ceremonial changing of the guard, which takes place just before noon each day, completes the picture with the soldiers sporting black uniforms in winter and white in summer. Day after day the Place du Palais is packed with tourists waiting to see the soldiers or hoping for a glimpse of Prince Rainier, Princess Caroline and the other Grimaldis.

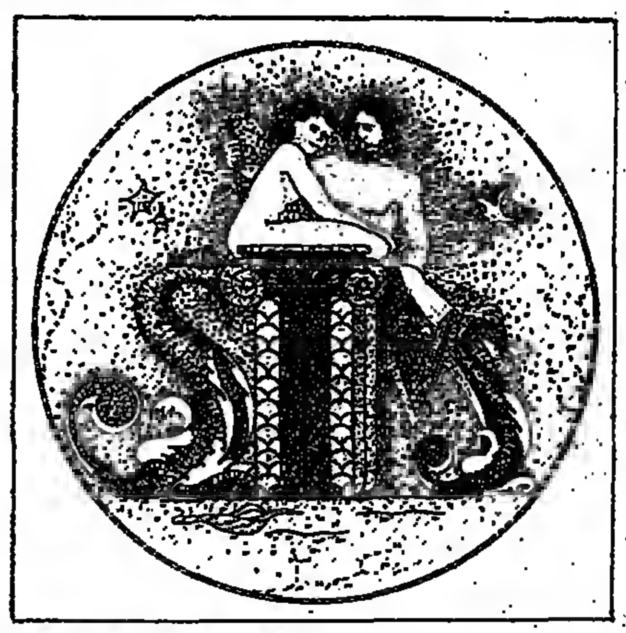
The *vieille ville* is also the home of Monaco's two most interesting museums. The Musée des Souvenirs Napoleon (tel: 9325 1831) in the southern wing of the palace is a treasure trove of Napoleonic memorabilia with more than 1,000 of his documents and objects ranging from his socks and handkerchieves to medals and weapons.

But the principality's main museological asset is Musée Océonographique (tel: 9315 3600), which was built in 1910 at the behest of Prince Albert I and has since established itself as an important centre for scientific research and one of Europe's best aquariums. It contains some 90 tanks of rare fish from all over the world with stunning colours and shapes. It also houses Prince Albert I's own collection of marine fauna and stuffed sea creatures (including a 20-metre whale) together with models of his laboratory ships.

The other academic curiosity in Monaco is the *Jardin Exotique* (tel: 9303 3365) high on the rocks above the principality. The gardens, which were founded in 1933, now encompass more than 7,000 different types of succulent plants including surreal cacti from central and southern America and giant African Euphorbia. Tucked beneath the gardens is another surreal scene in the Prehistoric Observatory Caves with their stalagmites and stalactites.

Finally, one of Monaco's main claims to fame and a fierce point of local pride is AS Monaco, the football club which is widely regarded as one of the most successful in France. AS Monaco has, like other European clubs, brandished its cheque book to sign a number of imported players over the years, including Mark Hateley and Glen Hoddle.

Similarly, no expense has been spared on its state-of-the-art stadium at Fontvieille. The head of one foreign bank remembers sending a visiting director from his London head office to see AS Monaco. "All he talked about after the match was the escalators that carry the supporters up to the terraces," recalls the banker. "It was the escalators that made him realise Monaco really isn't like anywhere else!"


The logo for the new thalassotherapy complex

Thalassotherapy complex rises again

Healing waters of Monte Carlo

In the grand old Edwardian era when the cream of European high society whiled away their summers in Monte Carlo, they spent each morning washing away their worries about the previous night's amorous adventures or gambling losses in the healing waters of the Sea Water Thermal Baths.

The thermal baths were a Monégasque institution which opened in 1908 after Prince Albert I had noted the success of the sea baths at Roscoff in Brittany.

They soon became a fashionable place where wealthy bathers could indulge in the ancient practice of thalassotherapy, a form of healing that exploits the soothing properties of exposure to warm water extracted from the sea.

The original baths were destroyed by a stray German bomb which fell on Monte Carlo by accident at the beginning of the second world war. The debris was cleared and the old baths became the site of a swimming pool for the Hôtel de Paris and Hôtel Hermitage. That pool has now been closed while the Société des Bains de Mer, the owner of the old thermal baths, builds a brand new FFr100m version.

Monte Carlo's new seawater baths will posit on the same thalassotherapeutic principles as the original, whereby the body is exposed to sea water that has been pumped from a depth of 30 metres and heated to around 35 degrees.

The temperature ensures that the microorganisms in the water, the phytoplankton and zooplankton, stay alive to secrete antibiotic bacteria and hormones with healing properties.

But the new baths, due to open next June, will be much more sophisticated than the old ones.

The new complex will include two sea water swimming pools together with seaweed cabins, sea water jet showers and a number of "dry" treatment facilities such as massage rooms and a gymnasium.

The complex has been designed by Dr Yves Treguer, one of France's leading cardiology specialists and the man behind the successful Thalassotherapy Centre at La Baule in western France.

He hopes to appeal to both people with medical conditions and to "lay" bathers who simply need a relaxing respite from their stressed-out lives.

Société des Bains de Mer, which has been struck by the recent revival of interest in thalassotherapy, hopes that its new Sea Water Thermal Baths will enable it to challenge the established centres at La Baule, Biarritz and Saint Malo: just as the old baths helped Monte Carlo to rival Roscoff in the early years of the century.